

**EMBARGOED UNTIL: 00:01 (UTC) November 11<sup>th</sup> 2019**

# IHS Markit Global Business Outlook

## Global business optimism slides to gloomiest since 2009

### Key findings:

- Worldwide business optimism for future output, employment and profits hits lowest since 2009
- Inflation expectations hit lowest for three years
- Gloom spreads from manufacturing to services
- Four largest developed economies all report gloomier outlooks, led by bleaker US and eurozone
- Brighter manufacturing outlook lifts emerging markets, led by China, but prospects still subdued

Data collected October 9-30

Worldwide optimism for growth of business activity, employment and profits in the year ahead has fallen to its lowest since the global financial crisis, accompanied by reduced planned investment spending. Inflation expectations have also weakened to a three-year low.

The October **IHS Markit Global Business Outlook Survey** – based on responses from a panel of 12,000 companies and conducted three times per year – shows the net balance of global firms predicting output to rise over the coming year minus those predicting a decline is down to +14%, from +18% in June. Optimism peaked in early-2018 and has since fallen steadily to reach its lowest since data were first collected in 2009.

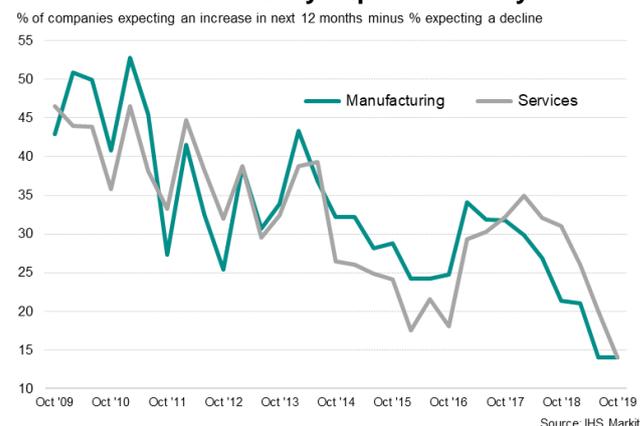
### Global business activity expectations



### Gloom spreads to service sector

Key to the latest deterioration is a worsening of business sentiment about the outlook in the service sector, where optimism regarding future output is down to its lowest since 2009, dropping further from a peak seen back in February 2018. Sentiment about future production in the manufacturing sector, which peaked a year earlier than in the service sector, meanwhile has failed to improve on the decade-low already plumbed back in June.

### Global business activity expectations by sector



There is a notable divergence between the developed and emerging markets. While developed world companies report the bleakest outlook for growth since 2009, sentiment is higher in emerging markets, albeit remains close to post global financial crisis (GFC) lows.

### Developed world optimism at survey low

In the developed world, sentiment about future output is down to new survey lows in both manufacturing and services.

Sentiment about the outlook has deteriorated in all four largest developed economies, dropping especially sharply in the eurozone and US to seven- and three-year lows respectively. Only slight falls of sentiment are seen in the UK and Japan, but these deteriorations

nevertheless have taken optimism in the former down to the second-lowest for a decade and to a three-year low in the latter.

### Emerging market manufacturing hopes lift higher

Emerging markets see a notable upturn in expectations for manufacturing output compared to June's recent low, and a more muted improvement in service sector optimism.

Looking at the four largest emerging markets, optimism about business activity over the coming year is up from the decade-low seen in June, but nevertheless remains the third-lowest since the GFC. Sentiment has improved in China, Brazil and Russia. Optimism in India meanwhile has fallen to the lowest seen over the past decade.

### Lowest profits outlook on record

The outlook for profits had already slipped sharply in the June survey and edged further lower in October, with the net balance of +6% running below any levels previously recorded since the GFC and down sharply since peaking at +24% in early-2018. Services optimism hits a new survey low, but overall manufacturers are less confident regarding profits than service providers.

Only Japan, China, Brazil and Russia see companies more upbeat about the profits outlook than in June. Especially steep deteriorations are noted in Germany and Spain.

### Hiring and capex intentions deteriorate

Expected jobs growth has also slipped to the lowest since 2009, the net balance falling globally to +7% from +10% in June, while capital spending plans hit the lowest since February 2016, with the net balance falling from +11% in June to +8%. Planned research and development spend is also weaker.

Worldwide manufacturing hiring intentions hit a post-GFC low while expected job gains in the service sector are the lowest since early-2016. Both sectors have meanwhile seen capex plans slide to multi-year lows.

By country, the UK, Japan, China, Brazil and Russia buck the global trends by seeing improved employment trends.

### Inflation expectations at three-year low

The survey also reveals that both non-staff costs and average prices charged are expected to rise over the coming year at the slowest annual rates since 2016. A

slightly slower rate of inflation is also noted for expected staff costs.

Companies in all four largest developed economies report slower expected selling price inflation over the coming year, but trends are more mixed in emerging markets. Higher expected inflation in China, Brazil and Russia contrasts with a reduction in selling price inflation forecasts to a new survey low in India.

### US

The US sees the net balance of companies predicting growth over the coming year drop to a three-year low, down from +16% in June to +10%. Global trade tensions, an upcoming election and tight labour market conditions have weighed heavily on business confidence. Both manufacturing and service sector firms express a lower level of positive sentiment towards future output than earlier in the year.

Employment and profits expectations have fallen to the lowest since February 2016, while selling price inflation expectations have dropped to the lowest since 2017.

### Eurozone

Growth expectations in the eurozone have slumped markedly to the lowest for seven years, the net balance sliding from +27% in June to +12%. The outlook is the gloomiest for ten years in manufacturing and for seven years in services. Profits are meanwhile anticipated to fall for the first time since 2012. Expected rates of non-staff input cost and selling price inflation are the lowest since 2016.

Within the eurozone, the gloomiest picture comes from Germany, where the number of companies expecting output to fall in the coming year exceeds those expecting an increase for the first time in the ten-year history of the survey. Manufacturers are especially downbeat, though sentiment has also worsened markedly in the German service sector. Optimism meanwhile has deteriorated to seven-year lows in both Italy and Spain and to the lowest for just over four-years in France.

### United Kingdom

UK business confidence is the second-lowest recorded over the past decade, with the net balance for expected output dipping to +31%. Manufacturing output expectations have deteriorated to the darkest for eight years, while service sector projections are unchanged on the subdued levels seen in June. Domestic political uncertainty, dominated by Brexit, and worries about the global economic outlook are

widely expected to constrain growth in the coming 12 months. Capital spending and employment plans have lifted slightly but remain close to post-GFC lows. Inflation expectations have also moderated.

## Japan

Business optimism in Japan continues to edge lower from the peak seen two years ago, with the net balance for expected output down to +10% from +11% in June, its lowest since mid-2016 and second-lowest for seven years. Manufacturing sentiment has picked up only modestly to remain among the weakest since the GFC, while service sector optimism has deteriorated to a three-year low.

Profits and hiring expectations have improved slightly but remain subdued, while capex intentions are the worst since early-2017. Output price expectations are the lowest since 2017.

## China

Business expectations for output have improved in China but remain the joint-second weakest in the survey history. The net balance is up from +9% to +14%, reflecting brighter optimism in manufacturing, but service sector sentiment hit the lowest since at least 2007. Brighter prospects in manufacturing are generally associated with hopes of an easing in trade tensions. Profits, investment and employment outlooks also remain close to survey lows.

## Business activity (output) % net balance of optimists less pessimists in October (manufacturing & services)

UK	31	Brazil	55
Germany	-1	Russia	20
Italy	20	India	14
France	23	China	14
Spain	5	EM	19
Ireland	27	US	10
Eurozone	12	Japan	10
Global	14	DM	12

## Comment:

Commenting on the survey, **Chris Williamson**, Chief Business Economist at IHS Markit, said:

*“Businesses around the world have become gloomier about their prospects, with expectations for output and profits in the year ahead dropping to the lowest since the global financial crisis ten years ago.*

*“Sentiment has worsened continually since peaking in early-2018, with the latest surveys showing a further erosion of confidence amid trade war tensions, wider geopolitical uncertainty and worries about slowing economic growth or recessions.*

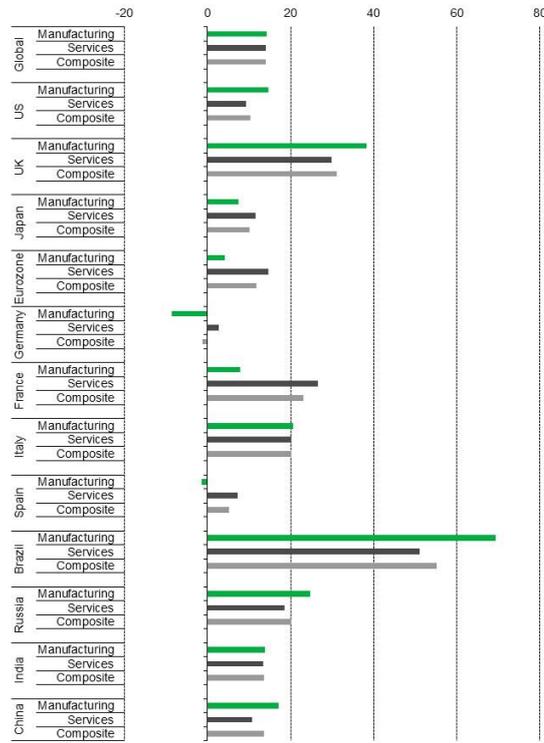
*“The outlook survey provided an early indication of the 2018 growth slowdown, and the latest readings warn that the manufacturing-led weakening has spread further into the service sectors of the world’s major economies, including the US, Eurozone, China and Japan.*

*“With business investment intentions and hiring trends expected to also deteriorate as a consequence of the broadening growth slowdown, the outlook survey data paint an increasingly gloomy picture that corresponds with our forecast for global economic growth to slow to 2.5% in 2020.”*

Full data are available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in October (% optimists less % pessimists)

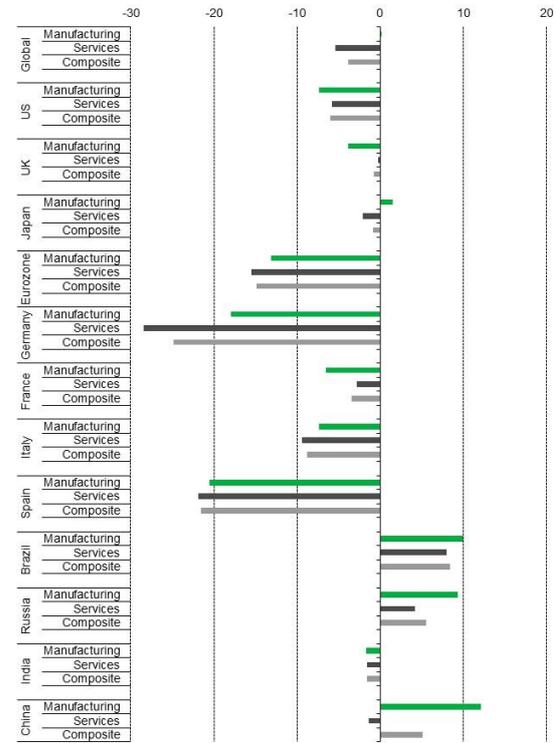
Outlook for business activity in 12 months' time\*



\* chart shows net balance of optimists less pessimists in October.

## How business activity expectations have changed since June

Change in optimism regarding business activity in 12 months' time\*



\* chart shows net balance of optimists less pessimists in October compared to net balance in June.

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### Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between October 9 and 30.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism

amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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