

**EMBARGOED UNTIL: 00:01 (UTC) March 10<sup>th</sup> 2020**

# IHS Markit US Business Outlook

## US business optimism improves to one-year high

### Key findings:

- Improvements in business confidence across both the manufacturing and service sectors
- Employment expectations at highest for a year
- Inflationary pressures forecast to strengthen amid greater forecasted increases in staff costs

Data collected February 12-25

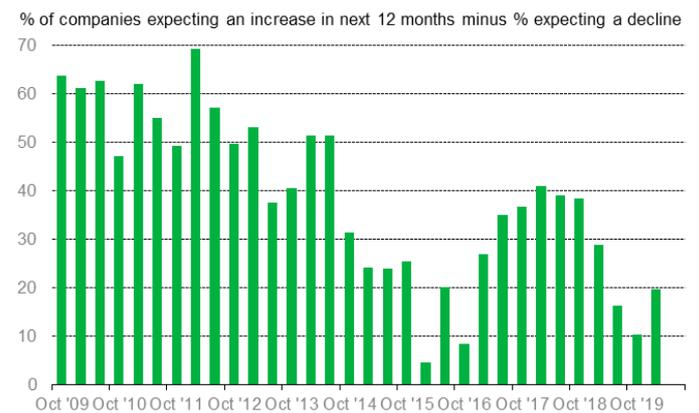
The latest IHS Markit Business Outlook survey signals that U.S. private sector firms are more optimistic regarding the outlook for output over the coming 12 months in February compared to October. The net balance of firms expecting a rise in business activity (+20%, up from +10% in October) is the highest for a year, but well below the series average (+39%). That said, optimism is stronger than the global average (+18%) and in line with the developed market trend.

Where private sector firms continue to foresee a rise in business activity over the coming year, optimism is linked to greater marketing activity and client requests, alongside new product launches. Some panellists have also suggested that opportunities for growth stem from efforts to diversify product ranges and expansion into new export markets.

That said, there are concerns towards the outlook stemming from the outbreak of the coronavirus disease 2019 (COVID-19) and its impact on client demand and supply chains. Meanwhile, firms have also stated that confidence is being weighed on by greater competition, greater uncertainty surrounding the election later in the year, potential government spending inactivity in the build up and policy change following the result.

Manufacturers and service providers alike are more upbeat regarding output expectations for the next year. As has been the case since early-2019, the net balance

### US business activity expectations



Source: IHS Markit.

of goods producers predicting an increase in output is higher than that seen for service providers.

### Employment & Investment Plans

U.S. private sector firms continue to forecast an increase in payroll numbers over the coming year. The net balance of companies that expect employment to grow (+16%) is the highest since February 2019, but below the series average (+19%). An improvement in hiring intentions has been noted across both monitored sectors, with confidence strongest among service sector firms.

Similarly, private sector companies anticipate a stronger increase capital spending than in October. February's net balance, at +9%, was broadly in line with the global (+10%) and developed market (+9%) averages. Stronger confidence towards investment largely stems from the manufacturing sector, where expectations are the highest since October 2018. Meanwhile, forecasts for R&D spending have been revised up in February.

### Inflation Expectations

Staff and non-staff costs faced by manufacturers and service providers are forecast to rise further over the

coming year. The net balance expecting an increase in non-staff expenses (+13%) is the highest since October 2018. At the same time, the net balance of firms forecasting higher staff costs (+18%) has also risen since October.

As a result, the net balance of companies expecting a rise in selling prices (+15%) is the highest since October 2018 and above the global average (+13%).

### Corporate Earnings

Plans to increase output charges supported stronger expectations regarding profitability over the next 12 months. The net balance of companies that foresee higher profits rose from +8% in October to +18% in February, the highest for a year.

### Comment:

Commenting on the US Business Outlook survey data, **Siân Jones**, Economist at IHS Markit, said:

*“Although U.S. private sector optimism towards the coming 12 months has picked up, firms still remain cautious towards the outlook for business activity, employment and investment in February. Concerns surrounding greater competition, but more commonly, COVID-19 and its impact on supply chains and client demand have reportedly hampered confidence.*

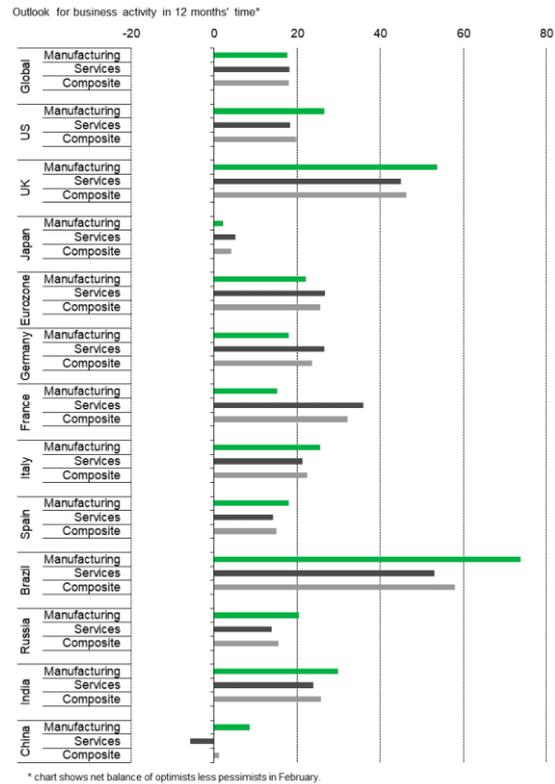
*“On a positive note, profitability looks set to improve to a greater extent than was forecast in October, with firms expecting to make adjustments to selling prices to reflect predictions of greater cost pressures.*

*“Another encouraging point was that both manufacturers and service providers look set to expand their workforce numbers over the next year. Similarly, firms are more optimistic about opportunities to increase their capex and R&D spending.”*

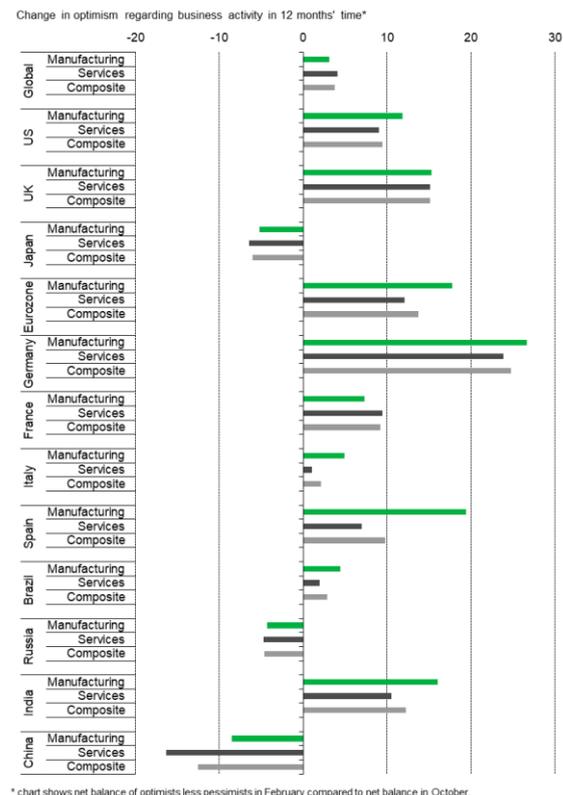
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### Business optimism in February



### How business activity expectations have changed since October



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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 February 12-27.

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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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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