

**EMBARGOED UNTIL: 00:01 (UTC) November 15<sup>th</sup> 2021**

# IHS Markit Europe Business Outlook

## Confidence remains in positive territory, but down on June's record high

### Key findings:

- Ireland most optimistic of all nations during October
- Jobs and investment expectations remain in positive territory
- Price pressures remain primary concern for firms

Data collected October 11-27

Business confidence amongst European companies remained elevated during October, despite dropping since June's record high to its lowest level of the year so far. Although positive projections for the recovery from the pandemic persisted, mounting concerns over the persistence of supply-side constraints and rising price pressures served to weigh on expectations.

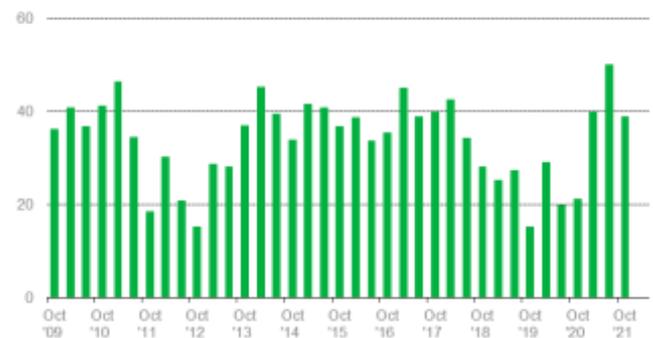
The headline IHS Markit Europe Business Activity Net Balance registered +39% in October, down from +50% in June. Despite dropping 11 points since the last survey, and to its lowest of 2021 so far, the respective net balance remained well above the series average. Confidence about activity over the next 12 months is also above the global average (+31%).

Both manufacturers and service providers registered similar-sized falls in activity expectations with both recording a net balance of +39% respectively.

Ireland was the most confident nation, with the respective net balance of +56% the highest of the six countries for which comparable data are available. Moreover, Ireland was the only nation to record an improvement in expectations as all others experienced a drop. France (+34%) and Germany (+35%) registered the lowest net balances.

Similar national trends were seen across the manufacturing and services economies, with Ireland again leading the way in both sectors – although it was only Irish manufacturers (+58%) that saw an improvement in confidence.

### Europe business activity expectations



### Employment & Investment Plans

European private sector companies signalled ongoing plans to raise their staffing levels over the next 12 months, although a fall in the net balance to +24%, from +31%, signalled a somewhat scaling back of expectations from their record high in June.

Manufacturers (+25%) and service providers (+24%) indicated similar confidence levels, but there was more variance by nation. Ireland (+36%) led the way, followed by the UK (+32%). Sentiment was noticeably less positive amongst Italian (+15%) and Spanish (+18%) companies.

The downgrade in expectations related to employment may reflect in part continued strength in capacity investment plans. Latest data showed a net balance of +19% of companies expect to raise their capex, little changed from June's survey record (+20%). Irish and Spanish companies (both with net balances of +24%) were especially optimistic.

### Inflation Expectations

Rising inflation remains an ongoing concern amongst companies as supply-side constraints in material and labour markets continued to push up the cost of operating expenses.

For non-staff costs, a record net balance of +55%, up from +45% in June, was registered. Manufacturers (+68%) led the way, though the net balance for service providers (+50%) hit a series high.

With demand for staff expected to rise, plus evidence of labour shortages around Europe, the net balance for staff costs rose to +56%, up from +48% and the highest since data were first available in February 2019. UK firms signalled the greatest expectations for a rise in staff costs (+75%).

Unsurprisingly, companies are looking for ways to pass on higher costs to clients, with a record net balance of +42% of firms signalling forecasts of a rise in their charges over the next 12 months.

## Corporate Earnings

With activity widely forecast to rise further, leading to a commensurate rise in sales and revenues, companies indicated positive projections for corporate profitability.

However, with cost pressures anticipated to rise, the respective composite net balance slipped to +14%, from +25% in the previous survey.

Moreover, manufacturers, who are likely to face greater price pressures than service providers, anticipate no change in profitability (net balance: 0%).

### Comment:

Commenting on the Europe Business Outlook data, **Paul Smith**, Economics Director at IHS Markit, said:

*“Despite deteriorating since June, European private sector companies remained highly confident that activity will continue to rise over the next 12 months.”*

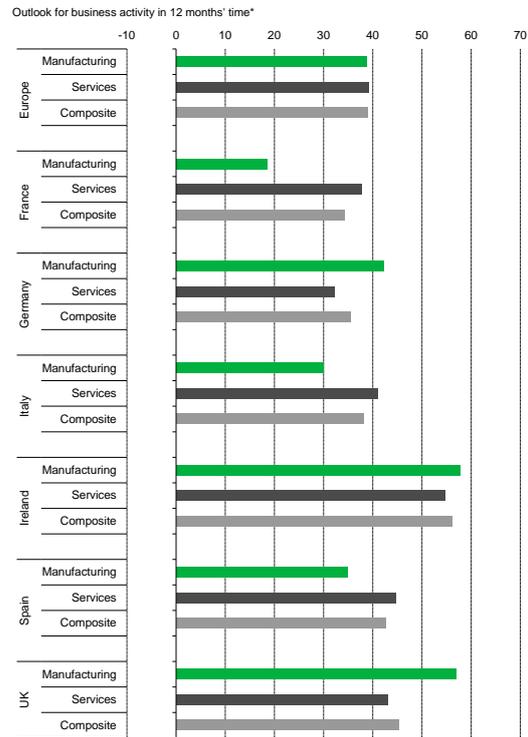
*“Confidence is closely linked to the recent uplift in activity and hopes of a continuation of the benefit from reopening ‘bounces’ in sales and demand.”*

*“However, concerns persist over the impact of rising price pressures and ongoing supply-side constraints. These are likely to weigh on profitability, especially in the goods producing sector, over the next year.”*

**-Ends-**

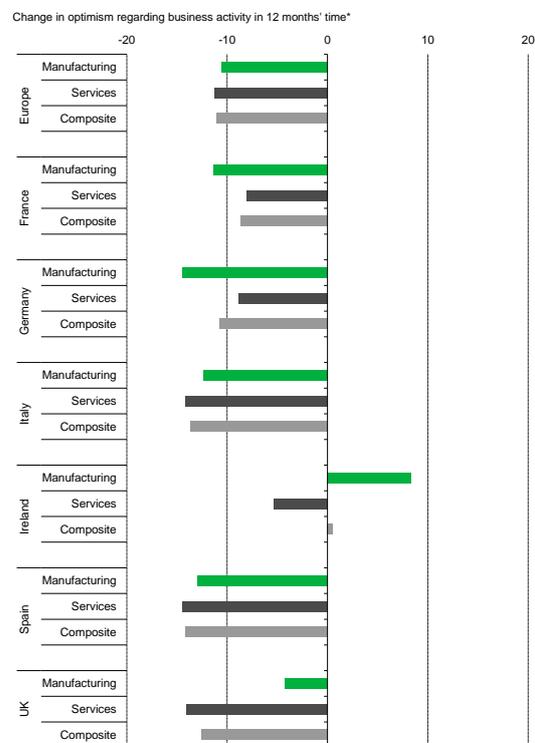
Full data available on request from  
[economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in October



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

## How business activity expectations have changed since June



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

**For further information, please contact:****IHS Markit**

Paul Smith, Economics Director  
Telephone +44-1491-461-038  
Email [paul.smith@ihsmarkit.com](mailto:paul.smith@ihsmarkit.com)

Joanna Vickers, Corporate Communications  
Telephone +44-2072-602-234  
Email [joanna.vickers@ihsmarkit.com](mailto:joanna.vickers@ihsmarkit.com)

**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 11 and 29.

The Europe Composite net balances are weighted averages of comparable manufacturing and services net balances. Weights reflect the relative size of the manufacturing and service sectors according to official GVA data. The countries with manufacturing and service sector surveys included in the calculation are France, Germany, Italy, Spain, the Republic of Ireland, and the UK. Manufacturing data also include the Netherlands, Austria, Greece, Poland, and the Czech Republic.

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 8,000 firms.

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