

**EMBARGOED UNTIL: 00:01 (UTC) March 12<sup>th</sup> 2019**

# IHS Markit US Business Outlook

## US business confidence at two-year low in February

### Key findings:

- Optimism regarding future activity weakens for the third successive survey period
- Employment expectations at lowest since June 2017
- Inflationary pressures forecast to ease over the coming year

Data collected February 12-25

The latest IHS Markit Business Outlook survey signals that U.S. private sector firms are less confident that business activity will rise over the coming year. At +29% in February, the net balance of companies expecting an increase in output is down from +38% in October and the lowest for two years. The net balance is also below the long-run series average (+41%). That said, the reading remains above the global (+24%) and developed market (+25%) averages.

Where panellists forecast a rise in business activity, this has been linked to new product development and modernisation, investment in new technology, efforts to find new vendors to reduce input costs, and the opening of recently renovated facilities.

Nonetheless, the drop in optimism has been attributed to uncertainty surrounding future legislation and trade wars, a tight labour market which is pushing wage costs up, increased competition from domestic and foreign firms, and the ongoing impact of tariffs which has led to increases in raw material prices.

At the sector level, manufacturers have indicated a slightly lower degree of confidence compared to that seen in October 2018, with the net balance falling from +32% to +30%. Service providers meanwhile posted a steep fall in optimism. The net balance of service sector firms expecting a rise in business activity has dipped from +40% last October to +29% in February.

### US business activity expectations



### Employment & Investment Plans

U.S private sector firms are less optimistic about job creation over the coming year, which is largely driven by weaker sentiment in the service sector. Overall, expectations of greater workforce numbers are at their lowest since June 2017 and just below the series trend. Nevertheless, the composite net balance is above the global average (+15%). Meanwhile, manufacturing firms are slightly more confident of a rise in employment, with the net balance picking up from +17% to +21% in February.

Firms have also expressed less robust predictions towards capital expenditure over the next year. The overall net balance of companies that foresee a rise in investment (+8%) is the lowest for two years. In fact, it is also the second-weakest of all the countries monitored by outlook surveys (behind only the UK).

### Inflation Expectations

Non-staff costs paid by private sector firms are forecast to rise over the coming year, but to a lesser degree. At +12%, the respective net balance is the lowest since October 2017 despite reports of the ongoing impact of tariffs on raw material prices. Both manufacturers and

service providers are forecasting slower increases in non-staff costs. Overall, expectations around future staffing costs remain little-changed from last October (net balance +7%).

Similarly, companies anticipate a slower increase in output charges in the coming 12 months. The net balance of firms expecting to raise their selling prices fell from +23% to +12% in February, with both the manufacturing and service sectors projecting weaker rates of charge inflation.

### Corporate Earnings

Although the net balance of companies predicting greater profitability (+26%) is the weakest for two years, it remains above the developed world average (+16%). Reduced confidence around future profits largely emanates from weaker sentiment at service sector firms.

### Comment:

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

*“Greater uncertainty towards global demand conditions and the ongoing impact of tariffs led to a lower degree of optimism regarding business activity growth over the next year across the U.S. private sector. Confidence dropped to a two-year low as expectations softened across both the manufacturing and service sectors.”*

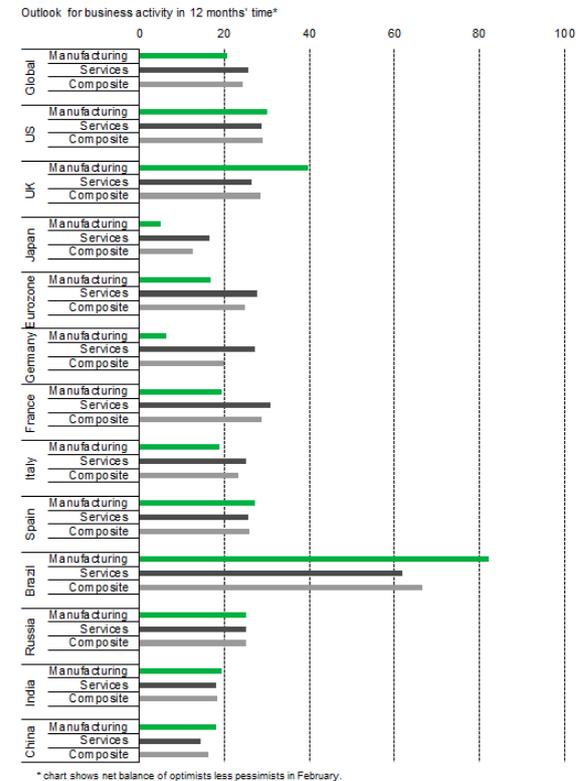
*“Importantly, companies are less optimistic of a rise in employment and capital investment over the coming 12 months. Net balances for research and development spending and capital investment are lower than seen in October 2018, and among the weakest of all monitored outlook surveys.”*

*“Meanwhile, inflationary pressures look set to ease. Firms are forecasting slower increases in output charges and non-staff costs, in line with expectations of slower demand growth.”*

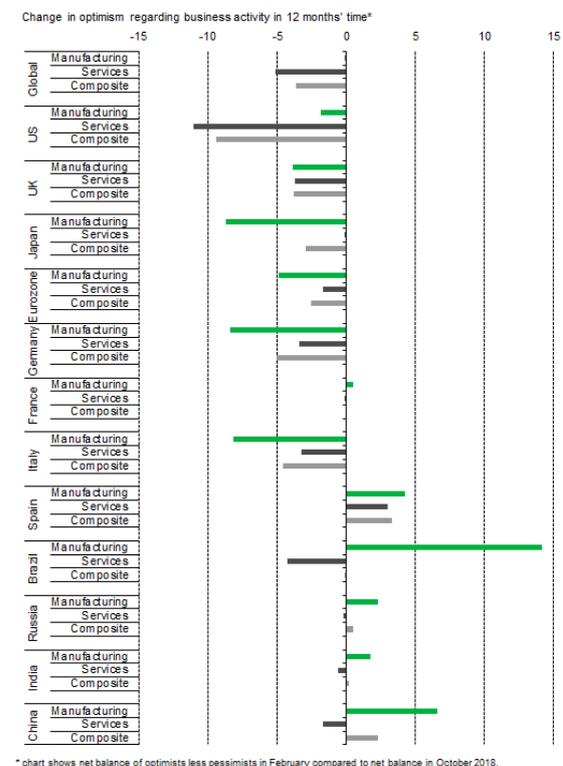
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### 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 12-25.

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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