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IHS Markit US Business Outlook

US business confidence remains strong in February, but costs expected to rise further

Key findings:

- Output expectations remain strong
- Staff and non-staff cost pressures set to soar
- Employment and profitability both forecast to improve over the coming year

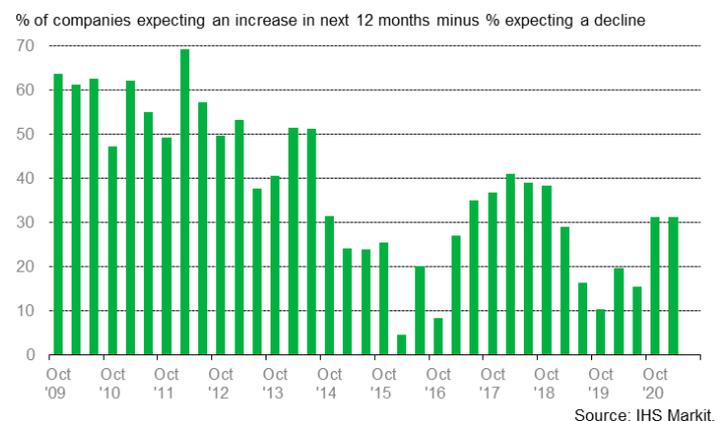
Data collected February 10-23

The latest IHS Markit Business Outlook survey indicated that business optimism among U.S. private sector firms was solid in February. At +31%, the net balance of firms expecting a rise in output over the coming year was the joint-highest since October 2018. Moreover, the net balance was broadly in line with the global trend (+32%). At the sector level, there was a broad divergence in business confidence trends. While manufacturers registered the strongest degree of optimism in future production since October 2014, service providers were less upbeat than in the previous survey period.

Opportunities for growth were widely linked to hopes of an end to the coronavirus disease 2019 (COVID-19) pandemic and lifting of restrictions. This was especially pertinent for service sector firms who commonly stated that reduced social-distancing measures and a successful vaccine roll-out will help boost client demand and support new sales.

That said, risks to the outlook due to the pandemic persisted, with ongoing uncertainty as to when economies will be able to reopen and when business conditions normalise. A large number of respondents also stated that higher costs for PPE and raw materials due to greater global demand for inputs, as well as transportation and supplier delays, could adversely impact operations. Some companies also noted difficulties finding suitable staff to fill current vacancies,

US business activity expectations



and challenges keeping their employee turnover low.

Employment & Investment Plans

Overall expectations regarding employment improved in February. The net balance of firms forecasting a rise in staffing numbers rose to +19%; the highest for two years. The uptick in predictions was led by manufacturers. At +34%, the net balance of goods producers that expect workforce numbers to increase was the strongest since June 2012. The net balance of service providers anticipating higher employment was unchanged from that seen in October (+16%).

On the investment front, private sector firms were slightly less upbeat than last October. The moderation in expectations were largely driven by service providers, as manufacturers indicated improved forecasts for capex and R&D spending over the coming year.

Inflation Expectations

Private sector firms anticipate a rise in both staff and non-staff costs over the coming year, with net balances increasing from those seen last October. At +32%, the net balance of companies expecting a rise in non-staff

costs was the highest since data collection began in October 2009. The net balance of firms that foresee an increase in staff costs also rose, and at +28%, was the greatest since the series started in October 2018.

Subsequently, more companies anticipate raising their selling prices over the next 12 months. The respective net balance rose from +19% last October to +24%, which marked the highest reading since October 2015.

Corporate Earnings

Despite fears of stronger inflationary pressures in the coming year, firms were upbeat regarding the outlook for profitability. At +25%, the net balance of firms expecting higher profits reached the strongest since February 2019.

Comment:

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

“US private sector firms remained upbeat in February, with confidence regarding future output unchanged from that seen in October. Hopes of an end to the pandemic and resulting pick-up in demand drove optimism, but concerns regarding the longevity of the virus outbreak were still apparent.

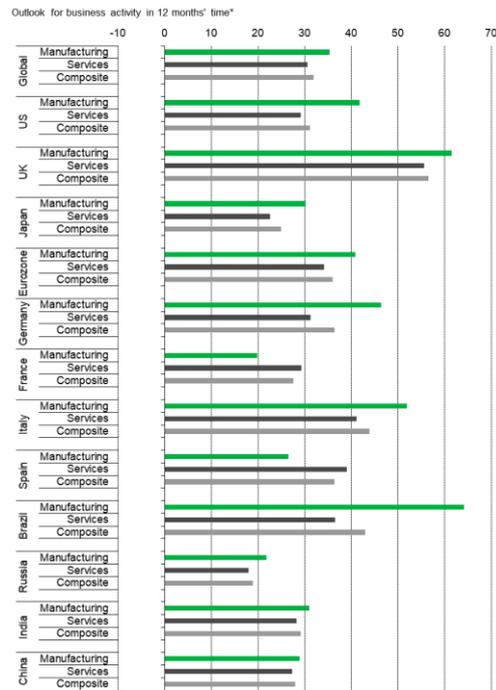
“As has been seen in recent national PMI surveys, price pressures and supplier shortages were key concerns for companies. Manufacturers and service providers alike foresee sharp upticks in staff and non-staff costs. That said, goods producers were much more confident of being able to pass on a greater proportion of the price rise.

“On the whole, manufacturers were more confident of a recovery in operating conditions than their service sector counterparts as ongoing social-distancing and travel restrictions continued to hamper demand for services.”

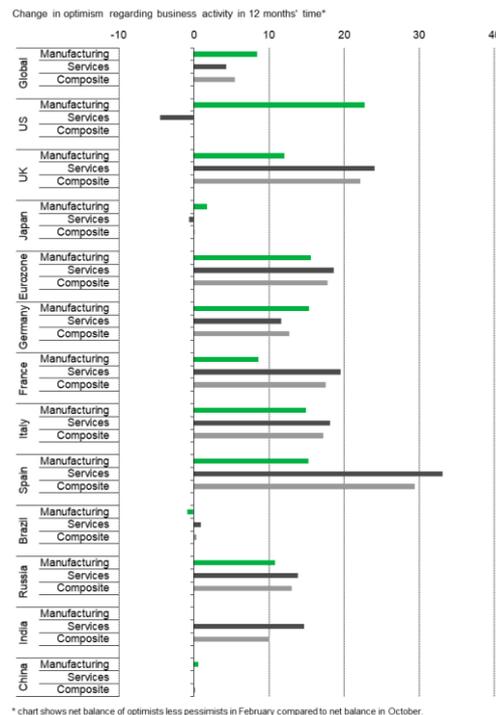
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Full data available on request from economics@ihsmarkit.com

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 2 and 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, 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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