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IHS Markit Europe Business Outlook

Confidence amongst European companies hits record high

Key findings:

- UK and Spain lead improvement in confidence
- Positive projections for employment as firms predict surge in activity
- Inflation worries principal threat to outlook

Data collected June 11-28

Amid growing confidence that vaccination programmes and the continual easing of government restrictions related to controlling the spread of COVID-19 will support a noticeable uplift in economic activity, business confidence amongst European companies leapt to its highest ever level in June.

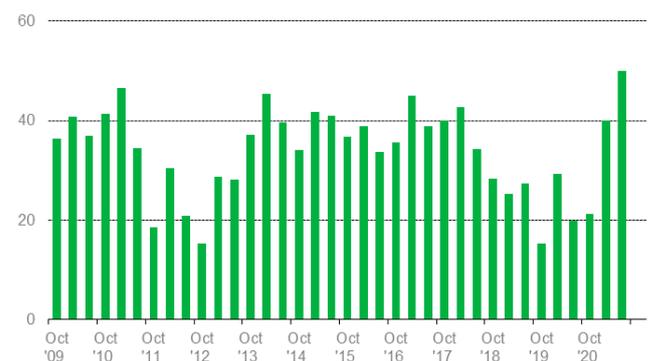
The headline IHS Markit Europe Business Activity Net Balance recorded +50% in June, up from +40% and a series record high (composite data became available in October 2009). That was comfortably higher than the global average of +38%.

Both manufacturers and service providers registered similar degrees of optimism. For goods producers the level of confidence was the highest since February 2014, whilst optimism amongst service providers surged to a record high. In both instances, sentiment was notably above respective global averages.

At the country level, Spanish (+59%) and Irish (+60%) service providers were especially confident of a rise in activity, compared to relatively more muted optimism seen amongst German services companies (+41%).

However, for manufacturing, Germany based goods producers were extremely positive (+57%) suggesting that a rise in international demand is likely to benefit nations with strong industrial export bases. Indeed, Dutch manufacturers (+56%) were also especially confident about future output trends. That said, UK goods producers (+61%) led the way in terms of overall optimism for European manufacturing in June.

Europe business activity expectations



Employment & Investment Plans

Private sector companies in Europe are widely expecting to raise staffing levels over the coming 12 months, with the net balance of +31% a series record high. Manufacturers (+32%) were a little more optimistic than service providers (+30%). At the country level, firms in the manufacturing economies of Austria (+44%), UK (+43%), and Netherlands (+42%), as well as Irish and UK services companies (both +41%), were especially optimistic.

Investment activity was also forecast to improve, with manufacturers (+28%) especially optimistic about capital expenditure plans. Indeed, the respective net balance for the goods producing sector was the highest in over 15 years of data availability. Italian, UK, Dutch and Greek manufacturers were especially confident of raising their capital expenditure.

Inflation Expectations

Although the general business outlook is positive and in line with recent positive developments in activity, there were noticeable concerns on the inflation front. A record net balance of European companies (+45%) forecast an increase in non-labour costs over the next year, with recent supply shortages on global product

markets, combined with pandemic related transportation challenges, widely expected to continue and raising costs through the supply chain. Manufacturers (+65%), which has been most impacted by these effects, continued to forecast higher inflation than service providers (+38%), with both sectors also expecting stronger price rises than at the global level.

Higher demand for staff, plus instances of labour shortages in some industries, helped explain an expected rise in staffing costs, with the respective net balance of +48% the highest in two years of comparable data collection.

Firms are seeking, however, to pass on higher costs to clients wherever possible in the form of increased output prices. The composite net balance of +33% was a respective series record.

Corporate Earnings

Reflective of the positive projections for activity over the coming 12 months, European companies widely forecast an increase in profitability. With a net balance of +25%, firms were at their most confident since February 2018.

Service providers were more confident (+29%) than their manufacturing counterparts (+14%), with the respective net balance for services a new survey record.

Comment:

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

“Underpinned by rising confidence across the continent, European private sector companies displayed an unprecedented degree of optimism with regards to future activity levels in June.”

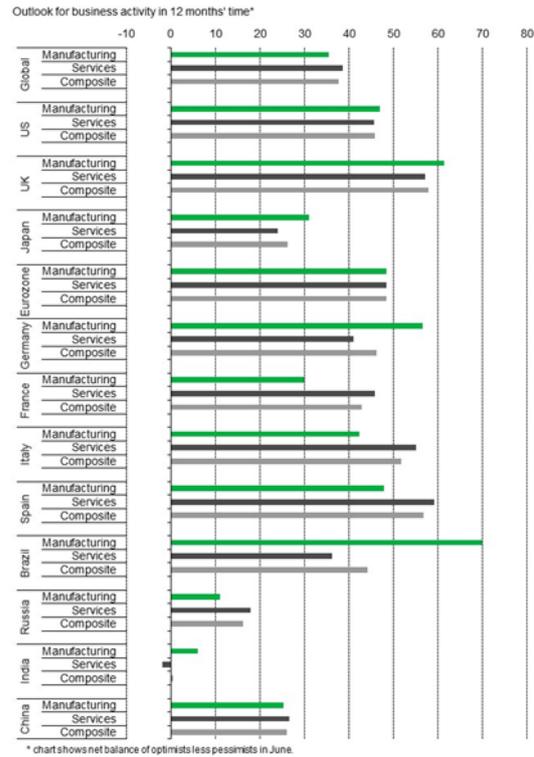
“Confidence was heavily linked to the hoped ending of pandemic related restrictions on movement, with firms widely anticipating a continuation of the recent positive trends in activity over the coming 12 months.”

“Concerns persist, however, over inflation, with firms expecting prices to rise sharply in the next year.”

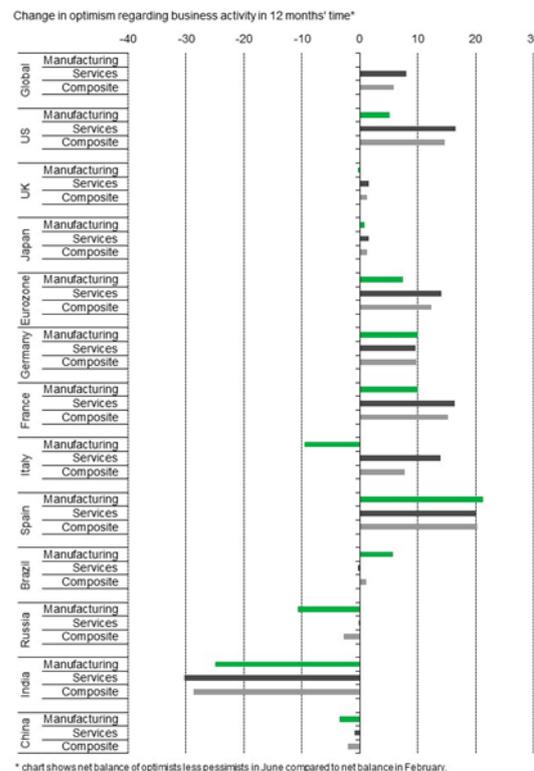
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Full data available on request from
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Business optimism in June



How business activity expectations have changed since February



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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 June 10 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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