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IHS Markit US Business Outlook

US business optimism hits three-year low

Key findings:

- Weaker business confidence across the manufacturing and service sector
- Employment forecasts at lowest since February 2016
- Inflation expectations moderate resulting in more subdued profitability predictions

Data collected October 11-28

The latest IHS Markit Business Outlook survey signals that U.S. private sector firms are less optimistic towards the outlook for business activity over the coming 12 months than in June. The net balance of firms expecting a rise in output has dropped from +16% in June to +10% in October and is the lowest for three years. The net balance of firms forecasting growth is also below the global (+14%) and developed market (+12%) averages. Both manufacturing and service sector firms expressed a lower level of positive sentiment towards future output than earlier in the year.

Confidence is generally linked to new export opportunities, with some companies planning on expanding their reach following ongoing trade tensions. At the same time, some private sector firms are suggesting that they have attracted new clients as more customers switch to domestically-produced goods. Companies are also predicting that greater marketing activity and the release of new products and services will boost sales over the next 12 months.

That said, several key factors are expected to weigh on growth. As has been highlighted in previous survey periods, the ongoing impact of tariffs and higher operational costs are seen as threats to the outlook, with many also stating that uncertainty surrounding future trade policy is likely to limit client demand.

US business activity expectations



Meanwhile, difficulties in finding skilled and reliable staff and the upcoming election are also cited as factors that may weigh on performance over the next year.

Employment & Investment Plans

Alongside a weaker degree of optimism towards output, the net balance of U.S. private sector firms who foresee a rise in hiring over the next year has slipped to the lowest since February 2016 (+5%). The reduced proportion of firms predicting an increase in employment is reportedly due to difficulties in finding skilled staff amid tight labour market conditions.

In line with weaker job creation expectations, U.S. private sector firms are also less confident of a rise in capital spending over the next year. The net balance of companies who forecast an increase in investment (+6%) fell from that seen in June (+10%) but is in line with the developed market average.

Inflation Expectations

Manufacturers and service providers revised down their expectations regarding future rises in both staff and non-staff costs in October, despite ongoing reports of higher operational costs due to tariffs. The net balance

of firms forecasting a rise in non-staff costs (+4%) is the lowest since February 2017.

Manufacturing and service sector firms both expect to raise their selling prices over the next year, albeit to varying degrees. The net balance of manufacturers predicting a rise in output charges in October (+17%) picked up from that seen in June (+14%), whereas service providers have become less confident of an increase in selling prices (net balance of +3%).

Corporate Earnings

Profitability forecasts among U.S. private sector firms are notably lower than those seen a year ago, with the net balance of companies expecting a rise in profits (+8%) having fallen steadily over the course of 2019 from +31% in October 2018.

Comment:

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

“U.S. private sector firms are expressing a more cautious level of optimism towards output over the coming year in October, with the net balance of companies predicting growth dropping to a three-year low. Global trade tensions, an upcoming election and tight labour market conditions weighed heavy on business confidence.

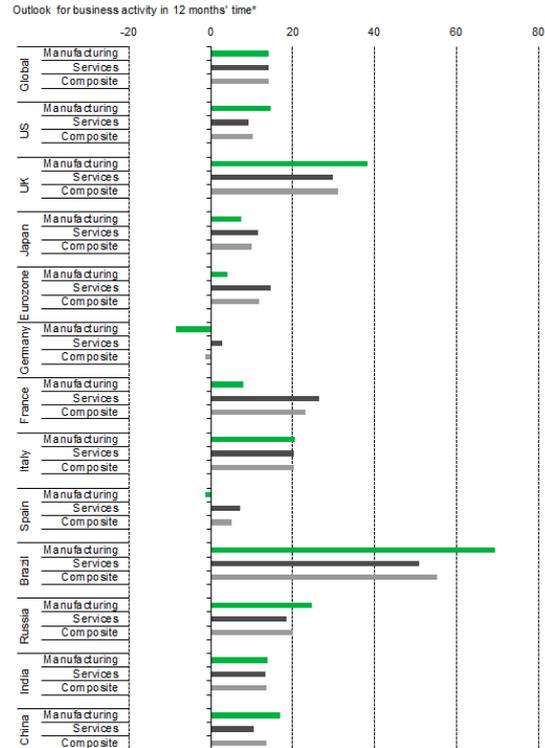
“Reflecting weaker forecasts for overall activity, firms are less optimistic regarding future job creation, with many noting that a shortage of skilled labour was reducing the ability to fill long-held vacancies.

“Meanwhile, inflation expectations at private sector companies remain subdued, with smaller proportions of firms predicting increases in cost burdens and selling prices. That said, manufacturers are more confident of raising their output charges, with the respective net balance picking up for the first time in a year.”

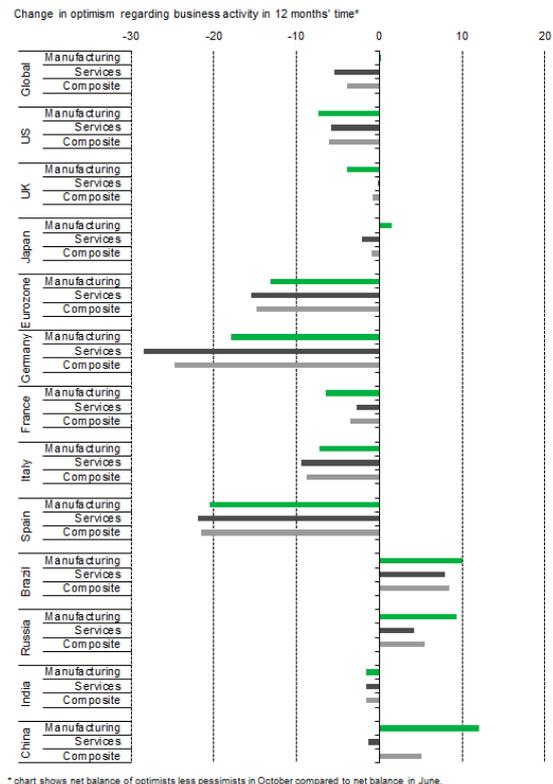
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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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 October 9-30.

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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