

**EMBARGOED UNTIL: 00:01 (UTC) July 15<sup>th</sup> 2019**

# IHS Markit US Business Outlook

## US business confidence slips to near three-year low

### Key findings:

- Sentiment weakens across both the manufacturing and service sectors
- Hiring expectations at lowest since early-2017
- Output price inflation set to moderate, despite predictions of higher staff costs

Data collected June 12-25

The latest IHS Markit Business Outlook survey signals that U.S. private sector firms are less optimistic regarding the year ahead outlook for output than in February. At just +16% in June, the net balance of companies forecasting growth has fallen from +29% in February and is the lowest since October 2016. The latest figure is also below the global (+18%) and developed market (+19%) averages.

Where private sector firms continue to signal confidence towards output over the coming year, this has been attributed to new product launches, expansion into new markets and diversification. Panellists have also stated that investment in new and renovated facilities could boost sales over the coming year.

That said, optimism is being weighed down by persistent uncertainty surrounding tariffs and global trade conditions. Future changes to trade policies and rising input costs have been highlighted as key concerns going forward. Meanwhile, tight labour market conditions have dragged on positive sentiment, with firms expecting to face higher wage costs in order to attract and keep skilled workers.

At the sector level, business confidence weakened across both manufacturing and service sector firms. The greater fall has been among service providers where the net balance (+15%) was among the lowest in the near ten-year series history. Manufacturers registered the weakest degree of optimism since October 2016, with

### US business activity expectations



the net balance dropping from +30% in February to +22% in June.

### Employment & Investment Plans

Firms across the U.S. private sector expressed a lower degree of optimism towards hiring over the coming 12 months. The net balance of firms expecting to increase workforce numbers is the lowest since February 2017 (+9%), amid reports of tight labour market conditions and difficulties finding skilled workers. Companies also noted issues with retaining employees.

Conversely, U.S. private sector firms look set to increase their capital expenditure to a greater extent than in February. Although below the net balances seen in 2018, June's net balance of +10% is only slightly below the long-run series trend (+12%) and the global average (+11%). The increase in the net balance was supported by service providers, who are more confident of a rise in capex over the coming year.

### Inflation Expectations

Output charges set by manufacturers and service providers look set to rise further over the next 12 months, however, the net balance of firms expecting an increase has dipped to a two-year low (+9%). Greater

competition and softer demand conditions are forecast to restrict the pricing power of firms.

At the same time, firms anticipate further increases in both staff and non-staff costs over the next year. Price pressures stemming from non-staff costs are predicted to ease, with the net balance of firms expecting a rise (+9%) the lowest since October 2017. Conversely, the net balance of firms forecasting higher staff costs has risen from +7% in February to +9% in June.

### Corporate Earnings

In line with weaker expectations towards business activity and output prices, profitability among private sector firms looks set to soften in the coming 12 months. The net balance of firms predicting greater profit margins has slipped to the lowest for over three years (+10%), though is slightly above the global average (+7%).

### Comment:

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

*“Challenging domestic and global demand conditions, the ongoing impact of tariffs and uncertainty towards future legislation have hampered expectations for future business activity in June. Manufacturers and service providers alike registered weaker forecasts for growth, with profitability and hiring also predicted to wane over the year ahead.*

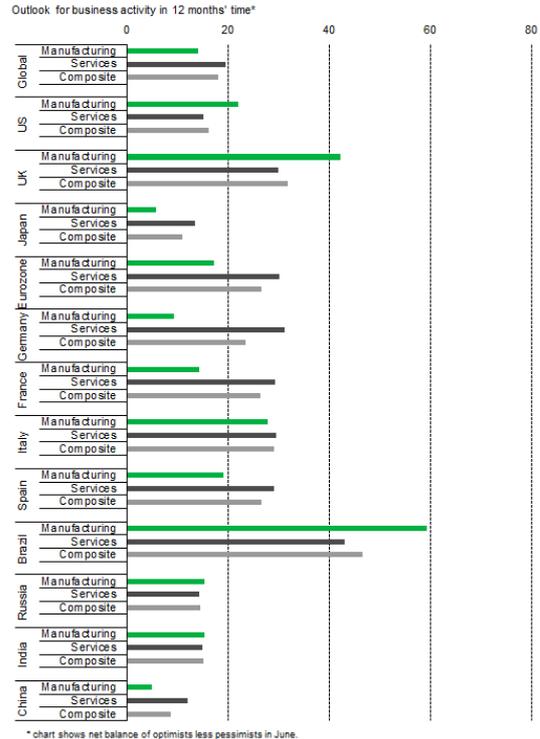
*“Greater efforts by firms to attract new clients and enter new markets are expected to take precedence over the next year, as companies look to diversify amid ongoing uncertainty. Therefore, plans to discount weighed on predictions for selling prices.*

*“On the price front, non-staff costs are forecast to increase to a weaker extent as component prices are expected to stabilise. However, the continuation of tight labour market conditions is expected to drive wage costs higher, as firms increase efforts to retain skilled employees.”*

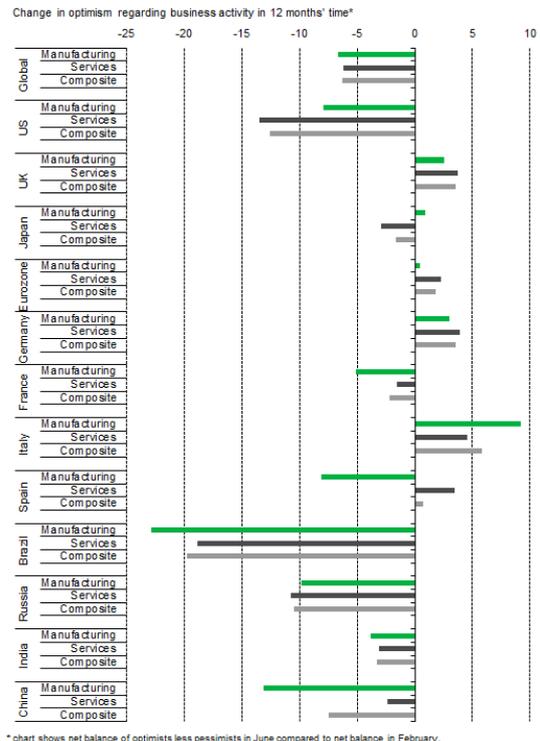
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### 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 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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