

EMBARGOED UNTIL: 00:01 (UTC) July 15th 2019

IHS Markit Global Business Outlook

Global business mood gloomiest since 2009

Key findings:

- Worldwide business optimism relating to future output and profits slides to lowest since 2009
- Global employment and investment spending intentions deteriorate
- US sees sharpest deterioration in business outlook of major developed countries
- Broad worsening outlook for emerging markets, led by weakest China prospects since 2009

Data collected June 12-27

Worldwide optimism for business activity and corporate profits in the year ahead has fallen to its lowest since the global financial crisis, accompanied by reduced expectations for employment and investment spending. Inflation expectations have also weakened.

Developed world sentiment has hit the joint-lowest since 2009 as a marked deterioration in sentiment in the US takes optimism about future output growth below that of the Eurozone and UK, both of which have seen sentiment pick up slightly. Japan remains the gloomiest of the developed world economies.

Business optimism about the year ahead has meanwhile also fallen across the four largest emerging markets to the lowest since 2009.

The **IHS Markit Global Business Outlook Survey** – based on responses from a panel of 12,000 companies and conducted three times per year – shows the net balance of global firms predicting output to rise over the coming year less those predicting a decline has fallen from +24% in February to +18%, its lowest since data were first collected in 2009.

Output expectations are especially weak in manufacturing, where the net balance has hit a post-global financial crisis low of +14% from +21% in February. However, service sector expectations have also deteriorated, dropping to the third-lowest level since the global financial crisis.

Global business activity expectations



Expectations of profits growth in the year ahead have meanwhile also worsened to a post-crisis low, with the survey net balance down from +15% in February to +7% in June. Profits gauges are down to new survey lows in both manufacturing and services, with the latter indicating especially weak optimism (a net balance of +3% against +9% in services).

Anecdotal evidence shows growing anxiety about US trade tensions, especially with China, Mexico and the EU, as well as heightened political uncertainty, with notable uncertainty regarding the 2020 US elections and disruptive impact of Brexit. More generally, there are worries about forecasts of slower global economic growth in the coming year, with reduced spending expected to curb sales and expansion plans.

The drop in expectations of output and profits growth is therefore being accompanied by a commensurate easing in global hiring and business investment intentions. Expected jobs growth has slipped to the lowest since 2009 with the sole exception of February 2016, while capital spending plans are down the lowest since October 2016.

Worldwide manufacturing hiring intentions are the lowest for six years while expected job gains in the

service sector are the lowest for just over three years. Both sectors have meanwhile seen capex plans slide.

The survey also reveals that average prices charged are expected to rise over the coming year at the slowest annual rate since 2017, with slower rates of inflation anticipated for both goods and services. Non-staff cost inflation is likewise expected to moderate, down to the lowest for two years, with growth of staff costs also cooling compared to that expected earlier in the year.

US

The US has seen the biggest slide in business optimism of all countries apart from Brazil in June. With the exceptions of surveys conducted in 2016, sentiment about future output in both manufacturing and services has deteriorated to the lowest since the US outlook surveys began in 2009.

Companies' concerns are focused on the impact of tariffs and trade wars and the potential for heightened political and economic uncertainty in the lead up to the 2020 elections. Pressure on business performance from high costs and skill shortages are also widely reported.

US profits expectations slide sharply to the lowest since late-2016, accompanied by a similar weakening of hiring intentions. Planned capex growth has improved slightly but remains weaker than a year ago. Despite concerns over tariffs, inflation expectations in relation to both input costs and selling prices has meanwhile moderated further in the US compared to the peaks seen late last year.

Europe

Although confidence about output growth in the year ahead ticks higher in both the Eurozone and UK, the degree of optimism remains the joint second-weakest since 2009 in the UK and close to six-year lows in the euro area. France bucks the trend in the latter, being the only one of the four-largest euro member states to see optimism deteriorate compared to earlier in the year. However, in all cases, eurozone confidence remains substantially weaker than the peaks seen at the start of last year, with Germany recording the gloomiest outlook.

Profits expectations in the UK meanwhile stay close to February's post-recession low, and slip to a six-year low in the eurozone.

Hiring expectations in Europe also remain subdued, running at the joint-lowest since early-2013 in the UK and the weakest since late-2014 in the euro area.

Of particular note, planned investment spending in the UK has fallen to its lowest since late-2011, running below all other countries surveyed globally by a considerable margin, often reflecting heightened political and economic uncertainty due to Brexit. Investment intentions in the eurozone are unchanged, albeit still at the lowest since early-2017.

Japan

Business optimism regarding future output in Japan has meanwhile waned to a three-year low and one of the lowest seen since the global financial crisis.

In manufacturing, sentiment has picked up only modestly to remain one of the weakest for six years, and service sector optimism has deteriorated to the lowest since early-2018.

Profits expectations have been hit hard, with pessimists exceeding optimists for the first time since 2010, taking the series down to a post-crisis low.

Employment, capex and inflation expectations have all also fallen in Japan.

The slump in sentiment has been attributed to the negative impact of US trade tensions and signs of weaker economic growth in key export markets, exacerbated by worries about the impact of the planned sales tax hike later this year.

Emerging markets

The emerging market deterioration is being led by China, where the outlook has darkened to the gloomiest since 2009. Expectations for output growth have hit 2009 lows in manufacturing and Chinese service providers are the least optimistic since the survey began in October 2007. Companies also report the bleakest outlooks for profits, employment and business investment seen since 2009. US trade wars remain the single-most commonly cited threat to future growth.

Future expectations have also worsened to the joint-lowest since 2009 in India and have hit the lowest since early-2016 in Russia.

While Brazilian companies remain typically upbeat relative to other countries, the latest survey indicates the largest slide in optimism of all countries surveyed amid rising concerns about political and economic stability.

Comment:

Commenting on the survey, **Chris Williamson**, Chief Business Economist at IHS Markit, said:

“The global business mood has darkened to the gloomiest since the height of the financial crisis in 2009. Escalating trade tensions have fuelled the downturn in optimism, exacerbating wider worries about slowing economic growth in key markets.

“Not only does the survey indicate a further weakening of global economic growth in the second half of 2019, but companies are expecting profits to be especially hard hit, which is leading to a pull-back in both hiring and business investment around the world. This in turn adds to the risk of the downturn becoming more entrenched in coming months, absent renewed policy stimulus measures.

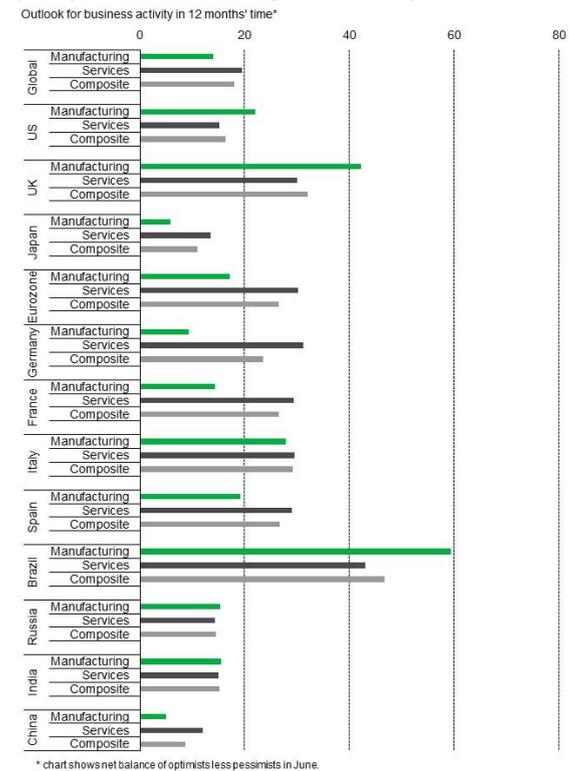
“The big change since earlier in the year has been a marked deterioration of optimism among US companies, alongside a slide in business optimism in China, indicating how trade war tensions are hurting both economies. In contrast, sentiment picked up slightly in the eurozone and UK, albeit remaining worryingly subdued.”

Full data are available on request from economics@ihsmarkit.com

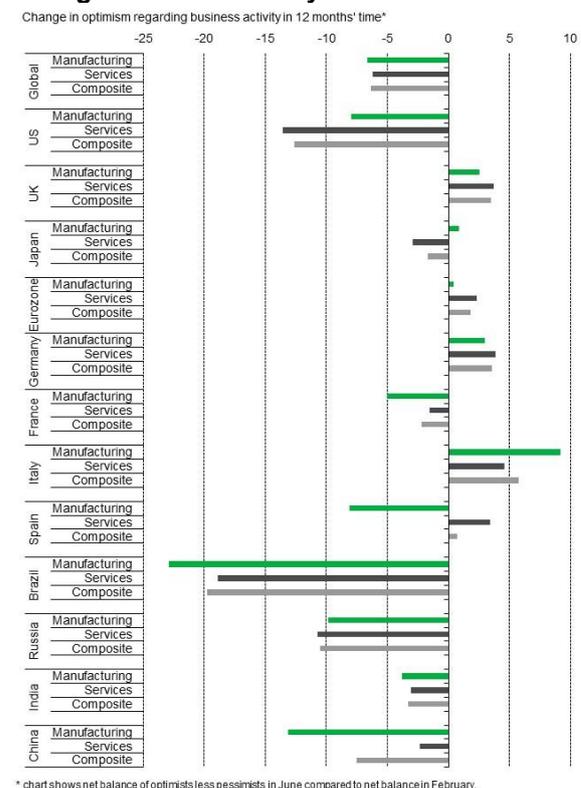
Business activity (output) % net balance of optimists less pessimists in February (manufacturing & services)

UK	32	Brazil	47
Germany	24	Russia	15
Italy	29	India	15
France	26	China	9
Spain	27	EM	15
Ireland	32	US	16
Eurozone	27	Japan	11
Global	18	DM	19

Business optimism in June (% optimists less % pessimists)



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 and 27.

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 7,000 firms.

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