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IHS Markit Global Business Outlook

Global confidence joint-highest in three years

Key findings:

- Brighter prospects evident in Japan, US and India
- UK sentiment plunges to lowest since late-2011
- Fainter optimism seen in Germany, Italy and France, while Spain remains cheery
- Brazil and Russia register falls in confidence

Data collected June 12-28

Optimism among global firms around the outlook for business activity has held steady in June compared to the two-and-a-half year high seen earlier in the year. However, the IHS Markit Global Business Outlook survey – based on responses from a panel of 12,000 companies – also indicates improved expectations regarding profitability, employment and investment in capital. Inflation expectations meanwhile have eased slightly relative to the start of the year.

The highest degrees of optimism in the developed world are seen in the eurozone, albeit down on levels registered earlier in the year. Firms' confidence levels regarding future business activity meanwhile are up to a three-year high in the US and the strongest for over four years in Japan. In contrast, a substantial drop in business optimism is noted in the UK, the lowest since late-2011, amid heightened political uncertainty in the immediate aftermath of the country's general election.

In the largest emerging markets, the most buoyant mood is recorded in Brazil, reflecting the country's long-awaited climb out of recession. The biggest slide in optimism is seen in China.

Global manufacturers remain more upbeat regarding activity than service providers, though confidence levels are up in the latter and down in the former. Job creation in services looks set to outpace growth of manufacturing jobs, while sentiment about profitability is identical across both industries.

Global business activity expectations



Source: IHS Markit.

Expectations around cost inflation are down slightly from the February survey's three-year high. Price pressures look set to be greatest in Europe and Brazil, and weakest in the US, Japan and China. Similar trends are observed with regards to output prices.

Worldwide enterprises predict that the pass through of greater cost burdens to clients will support profitability growth in the year ahead, with confidence around earnings springing to the highest in three years.

US sentiment climbs to three-year peak

Of the 12 countries for which composite (manufacturing plus services) outlook data are available, the US has seen the largest upturn in confidence. The prospect of pro-growth government policies combined with new product offerings, projects in the pipeline, sales drives, acquisitions, marketing tools and expansion into new markets are all seen as key drivers of output growth in the coming 12 months.

The overall upturn in confidence is widespread across the manufacturing and service sectors, with the net balances for business activity at +39% and +34% respectively. These are the highest readings since the second half of 2014.

The survey has also found US firms' hiring intentions are the best for two years, capex plans the most positive since early-2014 and the outlook for profits the brightest for three years.

Eurozone confidence dips

Reduced optimism is noted in three of the big-four euro area economies, the exception being Spain where sentiment is unchanged from February's recent peak and the highest among the major euro members. Although waning confidence in Germany, Italy and France has pushed the eurozone average down to +40% in June, from +43%, the net balance is still the second-highest in over six years and well above the global average.

Moreover, hiring and capex intentions in the currency bloc have been revised to the highest since composite data became available in 2009, while profits forecasts are at a joint-survey high. Inflation expectations meanwhile remain elevated in the context of historical data.

UK sees sentiment sink to six-year low

Uncertainty linked to Brexit negotiations and political issues weigh heavily on UK enterprises' confidence in June, taking optimism to its lowest since October 2011. Whereas goods producers and service providers alike anticipate higher output in the year ahead, degrees of optimism are among the lowest since the global financial crisis. The latest survey highlights the first time in seven years that UK firms are less optimistic than their euro area counterparts. Worries about inflation have also cast a shadow over economic prospects, with sterling weakness anticipated to push costs higher and subsequently suppress profitability growth.

Optimism in Japan highest in four years

Japanese companies are at their most upbeat since early-2013, with trade, new product launches, technological advancements, preparations for the 2020 Tokyo Olympics, sales efforts and favourable exchange rates boosting sentiment in June. Profits and employment outlooks are the brightest since the global financial crisis, while capex intentions are the strongest for three years.

Emerging market confidence falls

The business mood among the largest emerging markets has moved lower in June, with India the only nation to see an improvement in sentiment.

China's firms report one of the lowest levels of future business sentiment in the eight-year survey history (a net balance of +18% compared to past series lows of +17%). Only very modest capex and hiring intentions are recorded, alongside a weakened profits outlook, all down compared to earlier in the year.

Despite signalling the strongest level of confidence of the four BRIC countries, Brazilian firms are at their least positive in a year, with optimism dampened amid heightened political tension.

In Russia, the downward movement in sentiment is relatively mild, with the net balance of firms forecasting output growth the second-highest in over three years.

Comment:

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

"Global business optimism is running at a three-year high with an improved outlook for corporate profits, employment and investment intentions underscoring the increasing robustness of the economic upturn. The outlook survey suggests that the consistently solid global growth seen in the regular monthly PMI surveys through the first half of 2017 has further to run.

"The star performer in the coming year looks set to be the eurozone, where political risk has eased at the same time as central bank stimulus remains accommodative, the exchange rate weak and the labour market is improving.

"Confidence has also risen to multi-year highs in the United States and Japan, with both seeing improved outlooks for hiring, capex and profits.

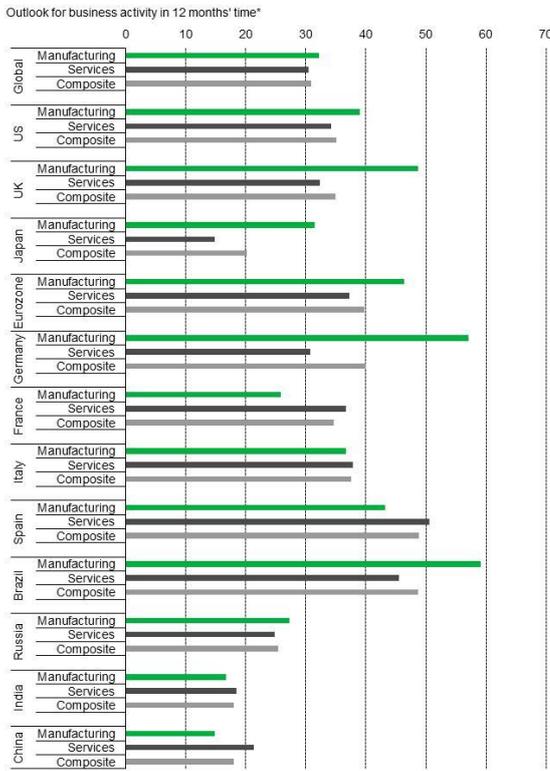
"In contrast, a darkened cloud hangs over the UK, where business optimism slumped to its lowest since 2011, dragged down by heightened political uncertainty following the general election. UK firms' hiring and capex intentions have weakened alongside one of the worst outlooks for profits since the recession.

"In the emerging markets, a waning of business optimism in China remains a major concern and adds to expectations that Chinese economic growth will slow in 2017 and into next year."

Business activity net balances in June (Composite)

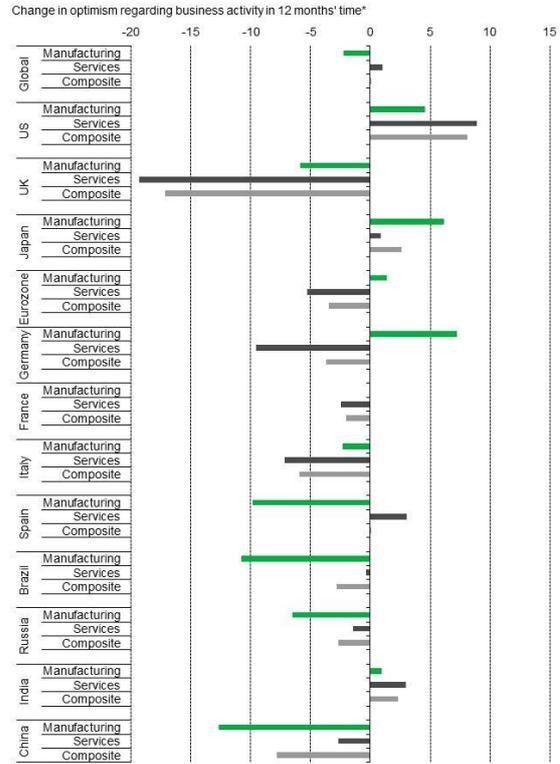
UK	35	Brazil	49
Germany	40	Russia	25
Italy	38	India	18
France	35	China	18
Spain	49	BRIC	24
Eurozone	40	US	35
Japan	20	Global	31

Business optimism in June



* chart shows net balance of optimists less pessimists in June.

How business activity expectations have changed since February



* chart shows net balance of optimists less pessimists in June compared to net balance in February.

Full data available on request from
economics@ihsmarkit.com

For further information, please contact:**IHS Markit**

Pollyanna De Lima, Economist
Telephone +44-1491-461-075
Email pollyanna.delima@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@ihsmarkit.com

Chris Williamson, Chief Business Economist
Telephone +44-20-7260-2329
Mobile +44-779-5555-061
Email chris.williamson@ihsmarkit.com

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 28.

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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