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Markit Global Business Outlook

Worldwide business confidence at two-and-a-half year high

Key findings:

- Sentiment towards activity growth improves in all countries, bar India and Brazil
- Global capex and hiring intentions climb since October
- Cost pressures look set to intensify, notably in the eurozone, the UK and Brazil
- Firms expect to pass through higher cost burdens, with net balance for selling prices highest since October 2015
- Improved outlook for profitability

Data collected February 9-27

After a slide in business sentiment in October 2016 – mostly arising from political uncertainty – which raised concerns regarding the sustainability of the global economic upturn, levels of optimism have revived in almost all key markets.

The latest Markit Global Business Outlook survey, which measured expectations for the year ahead across 12,000 companies in February, recorded the strongest degree of optimism for business activity since mid-2014. The net balance of optimists less pessimists is up from +20% four months ago to +31%.

Worldwide goods producers are generally more confident than their services counterparts, though in both cases the respective net balances (+34% and +29%) have increased from the October readings (+25% and +18%).

Hiring intentions among global private sector firms have improved, with the net balance of +14% being the highest since June 2015.

In addition to stronger expectations regarding staffing levels, businesses plan to increase capital spending. A net balance of +11% of companies anticipate to increase their capex over the course of the next year, compared with +9% in the preceding survey period.

Global business activity expectations



Of concern, inflationary pressures look set to intensify in the year ahead. At +22% in February, the net balance for input prices is up to its highest in three years. With demand expected to improve, firms are confident that the burden of rising costs can be shared with customers and plan to raise their selling prices. February saw the highest net percentage of companies planning to increase output prices since October 2015 (+14%).

Subsequently, global firms are strongly confident that profits will increase in the coming 12 months, with the net balance up from +14% in October 2016 to its highest in almost two years (+19%).

Political uncertainty fades

February's business outlook data suggest that companies have shrugged off any concerns surrounding political uncertainty. Confidence has picked up substantially in the United States. At +27% in February, the net balance for the year-ahead outlook for business activity is at its highest since October 2014. On the price front, the strength of the US dollar supports views of only marginal increases in input costs and selling prices. Inflation expectations in the US are the weakest of all countries surveyed.

Meanwhile, UK enterprises are the most confident towards the prospects for output growth since June 2015. At +52%, the net balance relating to future activity levels was the highest of all countries except Ireland and Brazil. Optimism improved among both manufacturers (+55% from +47%) and service providers (+52% from +37%).

Investment in both employment and capital is expected to rise in the UK, while further improvements to profitability are anticipated. Sterling weakness is projected to support export growth, but on the other hand is forecast to continue to drive prices higher. Input cost inflation expectations in the UK are the highest globally.

Eurozone optimism hits six-year high

Sentiment also revived in the euro area, with confidence improving in each of the four largest economies. Spanish companies are the most upbeat regarding the 12-month outlook for business activity (+49%), followed by Germany (+43%) and Italy (+43%). However, it was France that saw the biggest improvement in optimism compared to four months ago.

Employment and capital expenditure in the currency bloc are projected to rise at quicker rates than previously thought, with the respective net balances up from +16% and +12% to survey records of +22% and +14%. Job creation is anticipated to be strongest in Spain, Germany and Ireland.

Sentiment in Japan lifts further

A net balance of +17% of Japanese companies foresee activity growth in the coming 12 months, up from +12% in October and moving further away from the low recorded in mid-2016 (+8%). The rise in confidence is underpinned by stronger optimism among goods producers and services firms alike, though remains the second-lowest globally.

Confidence in emerging markets improves

Optimism among BRIC economies has climbed to a two-year high (+28%), with both manufacturers (+30%) and service providers (+27%) more confident that output will expand over the course of the next year than they were in October 2016 (+21% and +24%).

February saw a pick-up in sentiment across Russia and China, while confidence levels in India and Brazil are down from those noted four months ago. Nonetheless, the latter posts the highest net balance of the four BRIC nations and one of the strongest globally.

The downward movement in optimism among Brazilian firms reflects concerns towards the ongoing economic crisis, a weaker currency, political instability and competitive pressures. Indian companies, meanwhile, see problems securing payments from clients and unfavourable government policies as threats to the outlook.

Comment:

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

“Global business optimism has perked up since late last year, supporting our view that worldwide economic growth will accelerate in 2017.

“We’ve seen businesses take a more upbeat view of the coming year in all major developed economies, as well as in China and Russia. Only in Brazil and India has optimism waned, reflecting the former’s ongoing political plight and the latter’s struggle with demonetisation.

“What’s especially encouraging is that investment and employment intentions are at their highest since 2015, suggesting firms are very much in expansion mode and boding well for the sustainability of the upturn.

“However, expectations of input cost inflation also hit a fresh high. The good news is that firms expect to pass enough of these costs on to customers to be able to keep profits on an upward trajectory. Expectations of corporate profits growth are the highest for almost two years.

“The downside is that the expected increase in inflation will eat into households’ spending power and could subdue economic growth in some countries, notably in the UK, where inflation expectations are the highest.

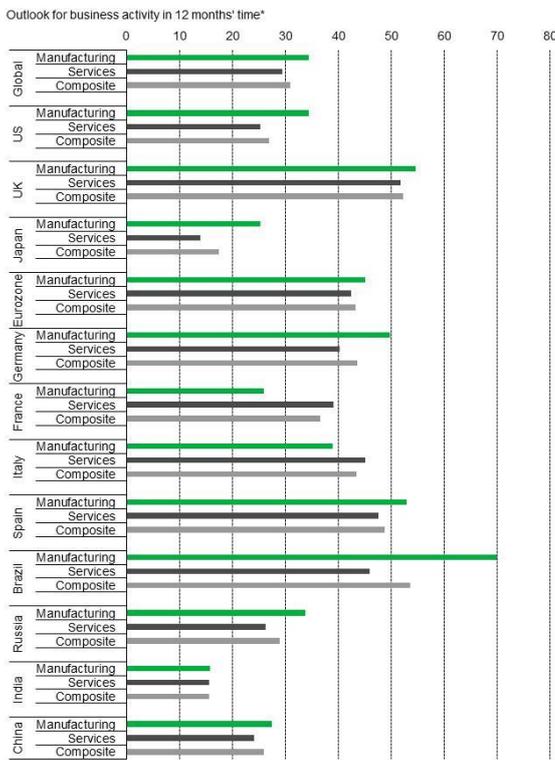
“An additional concern, widely cited by businesses, is that the upturn remains susceptible to being disrupted by political events, especially in Europe. For the moment, however, companies are generally taking a positive view of business conditions in the year ahead.”

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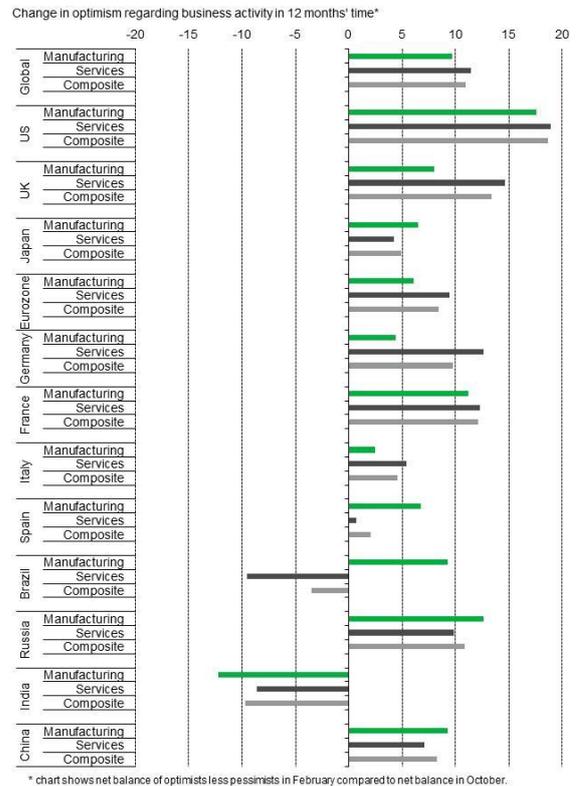
Business activity net balances in February (Composite)

UK	52	Brazil	52
Germany	43	Russia	29
Italy	43	India	16
France	37	China	26
Spain	49	BRIC	28
Eurozone	43	US	27
Japan	17	Global	31

Business optimism in February



How business activity expectations have changed since October



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 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 February 9 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 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 6,600 firms.

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