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IHS Markit Global Business Outlook

Worldwide business optimism highest for over three years

Key findings:

- Optimism improves in majority of countries, with Ireland and Brazil on top of the rankings
- Job creation foreseen in all countries
- Spain sees a dip in confidence as political instability weighs on sentiment
- Inflationary pressures expected to intensify

Data collected October 11-30

Worldwide confidence towards the 12-month outlook for business activity is running at its highest for just over three years, according to the latest survey data collected in October. Sentiment levels are either higher or the same as seen in the mid-year survey in all nations bar Spain and Brazil.

The IHS Markit Global Business Outlook survey – based on responses from a panel of 12,000 companies – also shows selling price expectations at a two-year high, albeit in part due to the anticipated need to pass rising costs on to clients. However, anticipated profits growth and hiring plans continue to run at their highest for three and two years respectively, though capex intentions have been revised slightly lower.

By sector, at the global level, manufacturers and service providers alike are equally optimistic towards output growth in the year ahead, although expectations surrounding employment and profitability are stronger among services companies.

By country, Irish firms are the most upbeat around output expectations, followed by Brazilian enterprises. Private sector companies in almost all of the eurozone nations are more optimistic regarding growth prospects in October than they were in June, the sole exception being Spain where political uncertainty has stymied confidence.

Global business activity expectations



Sentiment levels remain elevated in the US and the UK, whereas Russia, India, Japan and China report comparatively subdued degrees of optimism, the latter seeing the lowest optimism of all major economies.

Rising charges forecast to help boost profits

Goods producers look set to face stronger cost inflationary pressures than their services counterparts. As a result, the net balance of manufacturing companies planning to raise their selling prices in the year ahead exceeds that for services.

Input cost pressures look set to be highest in Europe, with Germany, Ireland and the UK at the top of the cost inflation rankings. Similar trends are recorded for output prices, though charge inflation is also forecast to be elevated in Brazil and Russia.

With demand conditions predicted to strengthen and higher cost burdens projected to be shared with clients, profitability is expected to improve especially solidly in the euro area, the US, Russia and Brazil.

US firms most upbeat since mid-2014

Improved optimism in the US has played a key role in boosting the October survey results, where investment

opportunities and new customer acquisitions were the main drivers of improved output expectations. US firms are at their most upbeat since June 2014, with sentiment above the global average for the second successive survey period. US hiring intentions are the brightest for over three-and-a-half years, while confidence around profits is the highest since February 2014. The projected rise in corporate earnings in the US is helped by relatively subdued cost pressures.

Euro area sentiment rises

Eurozone business optimism rose to the second-highest since February 2011, down slightly on the peak seen earlier in the year. With the exception of Spain, where confidence has waned on the back of political uncertainty, sentiment in the eurozone is either the same or above that recorded in June. While 'Brexit' is often mentioned as a threat to the outlook, opportunities such as product diversification, robust domestic demand and export prospects are foreseen to result in higher activity over the coming 12 months.

Projections of new business growth have underpinned optimism for profits. Hiring intentions, however, have been revised lower in all eurozone nations bar Ireland. Euro area enterprises forecast a pick-up in input cost inflation, with the net balance of firms foreseeing greater cost burdens being the second-highest in the eight-year survey history, with selling price expectations also the second-highest on record.

UK confidence improves from six-year low

A slight uptick in sentiment is seen among UK enterprises from the recent low recorded in June, although the degree of optimism remains modest by historical standards. A lack of clarity regarding Brexit proceedings is the main reason resulting in weak confidence, but businesses see a buoyant domestic economy as the key prospect for growth. Spending on personnel and capital looks set to expand, while stronger profit growth is forecast.

Lingering sterling weakness is predicted to result in greater input costs, with inflation expectations in the UK among the highest worldwide. Likewise, plans to increase output charges have been revised higher.

Japanese firms more cheery in October

Although sentiment in Japan has improved to the highest in over four-and-a-half years, the overall degree of optimism for output is the second-lowest globally. Nonetheless, activity is anticipated to rise in line with preparations for the 2020 Tokyo Olympics and possible economic stimulus arising from a favourable election result. Confidence levels surrounding employment and capex have nevertheless been revised lower. Meanwhile, selling price expectations edged up to a two-year high.

Emerging market optimism lags behind

The survey reveals a mixed mood among the main emerging markets. Brazilian and Russian firms are strongly upbeat towards growth prospects, while sentiment in India and China is subdued in comparison.

In fact, China-based companies are the least confident globally as environmentally-friendly policies and competitive pressures are seen as threats to growth prospects. Levels of sentiment around profits and employment are also the lowest worldwide.

Despite being placed second in the rankings, Brazil saw a decline in confidence during October. Lower borrowing costs, new partnerships and the upcoming presidential election are the main reasons leading to positive sentiment, whereas political and corruption issues continue to hamper optimism.

An upward movement in confidence is recorded in Russia, with sentiment the highest since June 2013. Forecasts of new business growth are projected to lead to job creation and greater profitability.

Sentiment in India has recovered further from February's low, but remains subdued by historical standards and among the lowest globally. Businesses are concerned about sudden changes to policy and their impact on operations. Additionally, some firms still mention a lack of clarity regarding the new tax regime.

Comment:

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

"The rise in worldwide business confidence suggests that the global upturn will gather further momentum next year, barring any surprises, with the expansion looking increasingly broad-based."

“A key development since earlier in the year has been the improvement in US optimism, which had slipped to a post-recession low last year. Business-friendly government policies, alongside faster global growth and rising asset prices, have buoyed sentiment among US firms.

“Political risk has also eased compared to earlier in the year, though Brexit and the separatist developments in Spain remain key risks to the outlook in Europe. Relatively elevated levels of optimism nevertheless continue to be seen throughout the eurozone, which remains the star performer of the developed world.

“Similarly in Japan, the re-election of Shinzo Abe played a factor in pushing business sentiment up to its highest since early-2013.

“Japan remained something of an outlier among the major Asian economies, however, with subdued optimism once again seen in both India and China – the latter seeing the lowest degree of confidence of all major economies – albeit due in part to government policies designed to address long-term structural issues. In India, companies continue to see the introduction of a national sales tax dampening sentiment, while Chinese firms often linked a gloomy outlook to policies such as environmental regulation.

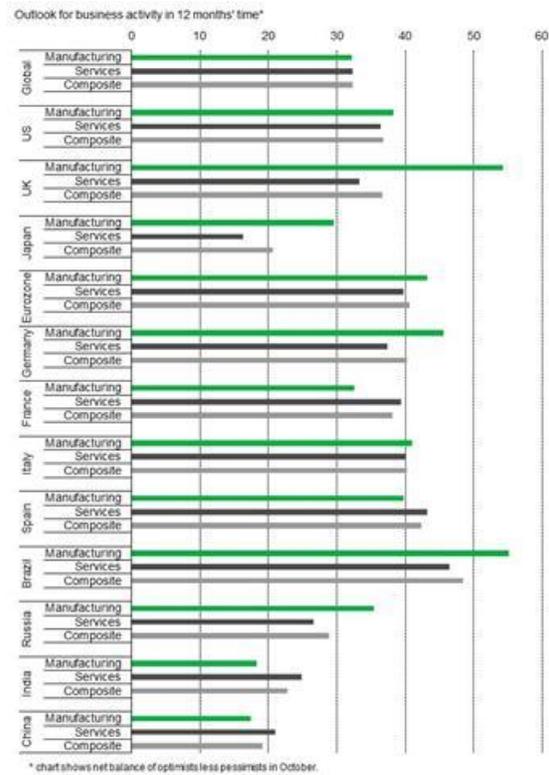
“The coming year is therefore likely to see economic growth accelerate, but for the developed world to enjoy an improved share of the upturn in demand relative to the emerging markets.”

Full data available on request from economics@ihsmarkit.com

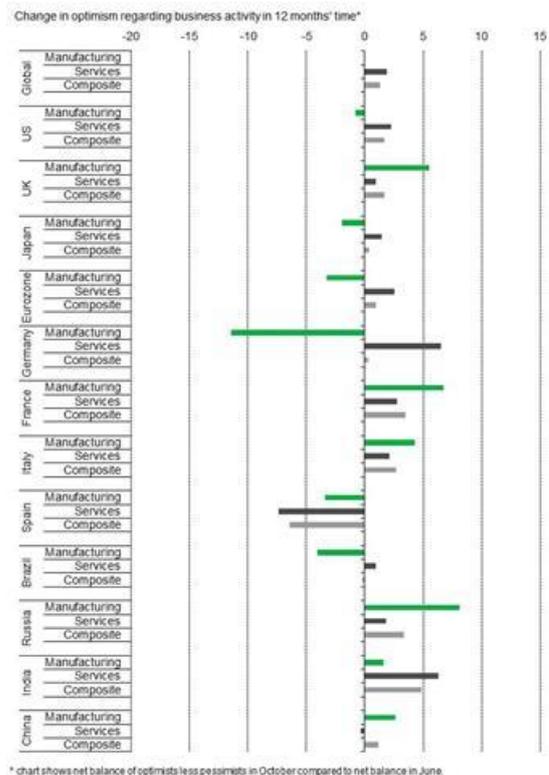
Business activity net balances in October (Composite)

UK	37	Brazil	48
Germany	40	Russia	29
Italy	40	India	23
France	38	China	19
Spain	42	BRIC	25
Eurozone	41	US	37
Japan	21	Global	32

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 11 and 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 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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