

News Release

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S&P Global US Business Outlook

Output expectations lowest since June 2020

Key findings

Business confidence drops on concerns regarding inflation and subdued demand

Hiring intentions weaken further

Inflation predictions moderate but remain historically elevated

The S&P Global US Business Outlook survey signalled weaker optimism regarding the year-ahead outlook for output among US private sector firms in October. The net balance of companies anticipating higher activity, at +23%, was the lowest since June 2020. That said, it was stronger than the global average (net balance of +17%). The drop in expectations was largely driven by the service sector, where optimism fell to its lowest in over two years. Manufacturers, on the other hand, were more upbeat than in June.

According to panellists, threats to the outlook largely centred on inflation and weaker demand conditions. Private sector firms also noted that higher interest rates and ongoing supply chain disruption are further factors which could hamper growth in the coming 12 months. At the same time, a tight labor market and challenges finding skilled workers for open vacancies were highlighted as concerns. Pressure on prices and muted demand conditions are also expected to lead to more intense market competition, which could also impact future growth.

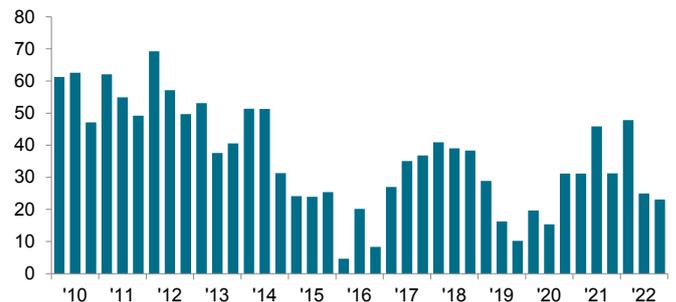
Opportunities for growth stemmed from efforts to diversify product offerings, more competitive pricing, and hopes of less marked supplier delays. Firms also mentioned that they aim to keep staffing costs down in an effort to dissuade companies from taking operations offshore.

Price pressures set to ease slightly

Inflation expectations across the US private sector remained historically elevated in October, with companies predicting further hikes in staff and non-

US Business Activity expectations

% net balance



Source: S&P Global.

Data were collected 06-26 October 2022.

Comment

Commenting on the US Business Outlook survey data, Siân Jones, Senior Economist at S&P Global Market Intelligence, said:

"US private sector firms remained cautious in their expectations for output over the next year in October, as the impact of inflation and muted client demand weighed on sentiment. Less upbeat predictions for activity, employment and investment stemmed from lower optimism among service providers. Overall, confidence was the weakest since the initial pandemic lockdown period in mid-2020.

"Inflationary pressures, from purchase prices to wage bills, were identified as a key threat to output growth. Firms do not expect these pressures to dissipate soon, as expectations for staff and non-staff costs were historically elevated. Nevertheless, projections of further hikes to output charges led to slightly stronger optimism regarding profitability in the next year.

"Meanwhile, struggles finding skilled labor and weaker demand conditions led firms to moderate their expectations for employment to the lowest for over two years. Once again, the more downbeat prediction was driven by service providers, as manufacturers revised up their hiring intentions."

staff costs. The net balance of firms anticipating increases in both staff and non-staff costs fell slightly, but were nevertheless the fourth and third-highest on record (since October 2018 and October 2009, respectively). Inflationary pressures are expected to stem from higher interest rates, increased wage bills and greater costs for energy, materials and transportation.

At the sub-sector level, manufacturers and service providers both foresee sharp upticks in costs over the coming year. That said, service providers signalled a moderation in expectations regarding prices, whereas goods producers predicted steeper increases in staff and non-staff costs.

On the selling price front, private sector firms revised down their expectations for output charges in October. The net balance of companies anticipating greater charges was the lowest since June 2021, but greater than any recorded before that period. Firms often hoped to be able to continue passing through higher costs to clients, despite the threat of competition.

Employment expectations lowest since June 2020

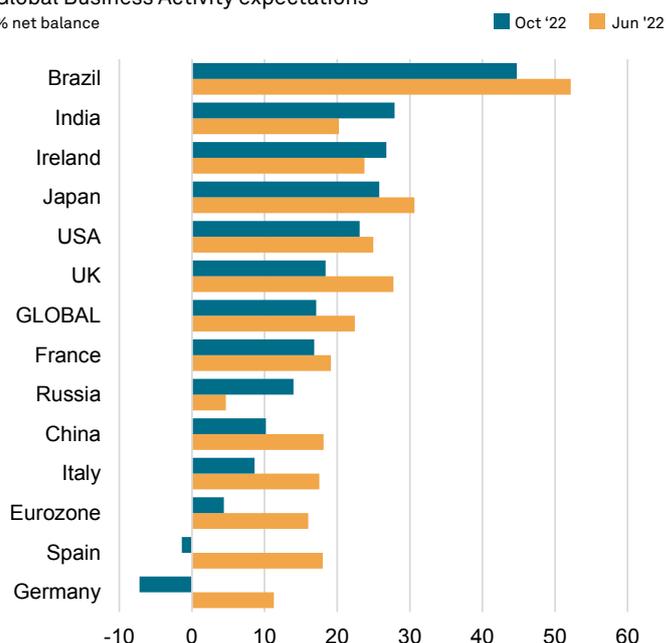
Hiring intentions across the US private sector weakened in October, as the net balance of firms expecting higher workforce numbers dropped to the lowest in over two years. Higher anticipated wage bills and subdued client demand are reportedly expected to weigh on decisions to expand employment. Although manufacturers revised their predictions up from June, service providers were less upbeat.

In line with expectations for employment, firms were more downbeat in their outlook for investment over the next 12 months. The net balance of companies anticipating higher capex spending remained positive, but fell to the lowest for a year. Meanwhile, firms foresee a slight decrease in R&D (research and development) spending over the next year. The net balance was negative for only the second time in the four-year series history.

Profitability expected to rise, albeit modestly

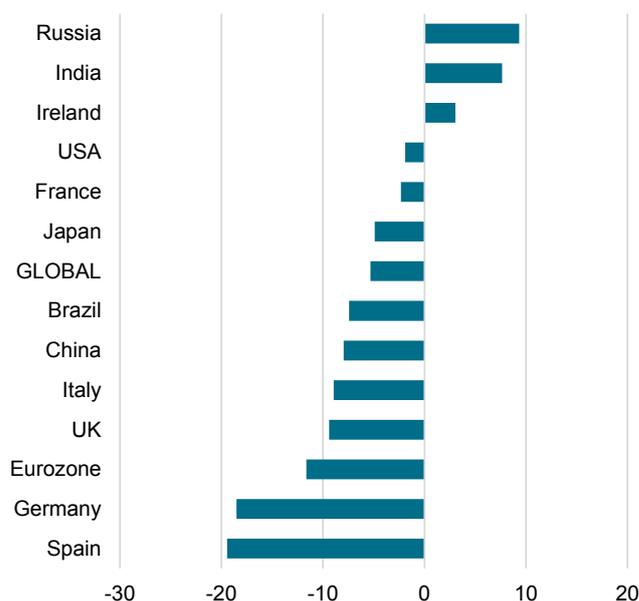
Confidence regarding the outlook for profitability over the coming year improved in October. The net balance of firms anticipating greater profits rose slightly from June's recent low, but remained weaker than the series trend. Manufacturers and service providers were both more optimistic regarding their predictions for profitability.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Oct '22 vs. Jun '22



Source: S&P Global.

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

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global 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.

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 S&P Global 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, 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 8,000 firms.

Contact

Sian Jones
Senior Economist
T: +44 149 146 1017
E: sian.jones@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 781 301 9311
E: katherine.smith@spglobal.com

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