News Release

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S&P Global Business Outlook

Global business optimism falls sharply as inflationary pressures bite and financial conditions worsen

Key findings

Confidence in business activity lowest since height of the COVID-19 pandemic

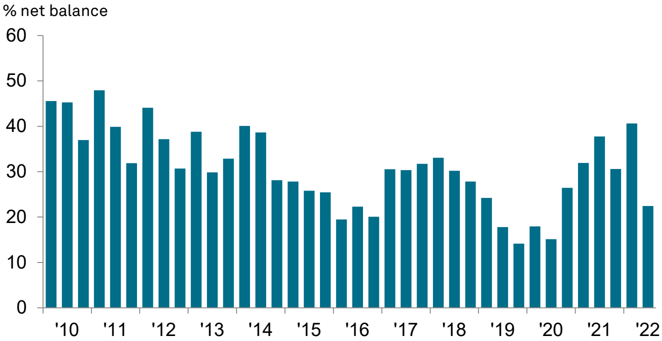
Inflationary pressures expected to remain elevated

Hiring and investment plans scaled back

Downgrades in sentiment particularly marked in Europe and the US

Japan only country to see confidence improve

Global Business Activity expectations



Source: S&P Global.
Data were collected 13-28 June 2022.

The S&P Global Business Outlook Survey – based on responses from a panel of 12,000 companies between June 13-28 – signalled a sharp worsening of business confidence among companies worldwide as severe price pressures are anticipated to accompany an economic slowdown. There was little sign of any respite on the inflation front, with both staff and non-staff costs set to continue to rise sharply. The combination of slowing activity and still high inflation meant that firms globally predicted a near-stagnation of profits, in turn leading to a scaling back plans for hiring and investment spending.

At +22% in June, the net balance of companies worldwide predicting a rise in business activity over the year was well down on the decade high of +41% recorded in February's survey and the lowest for two years, when the COVID-19 pandemic was raging across the world.

The revising down of output expectations was particularly pronounced in developed markets. US and Eurozone confidence fell to two-year lows while sentiment in the UK soured to the lowest since early-2019. In contrast, the only country to see an improvement in optimism since the prior (February) survey was Japan, where firms were hopeful of a lack of pandemic disruption over the coming year.

There was also a broad-based weakening of business optimism among the major emerging markets, led by

Comment

Commenting on the Global Business Outlook survey data, Andrew Harker, Economics Director at S&P Global, said:

"An increasing sense of gloom is descending over the global economy according to the latest S&P Global Business Outlook survey, with firms much less optimistic than they were earlier in the year. The spell of elevated inflationary pressure shows little sign of abating, hitting demand, leading to worsening financial conditions and putting a dent in firms' profitability. In turn, firms have scaled back their hiring and investment plans, hunkering down for tougher trading conditions in the months ahead.

"Downgrades to optimism were particularly notable in the US and across Europe, suggesting that the slowdowns in growth seen in the respective PMI surveys for these markets in recent months are more than just a temporary blip. Aside from Russia, emerging market confidence held up better in June, but whether this can be maintained in the midst of a downturn in developed markets remains to be seen."

S&P Global

an especially steep deterioration to a survey-record low in Russia following the invasion of Ukraine and imposition of sanctions. Mainland China, India and Brazil saw relatively modest downward revisions to sentiment, with the latter enjoying the highest level of optimism of all economies covered by the survey.

Optimism was lower across both the manufacturing and services sectors, with service providers maintaining the slightly higher degree of positive sentiment overall.

Profits to stagnate amid strong cost rises

June data suggested that there is likely to be little respite for firms on the inflation front over the coming year. In fact, the non-staff input costs net balance actually ticked up from that seen in February to a fresh record high of +38%. The staff costs net balance ticked down to +42% but remained elevated.

Despite concerns about customer demand, firms globally continued to indicate that they will pass through higher cost burdens to their clients over the year ahead. At +33%, the output prices net balance was only just below February's survey record, with firms in the eurozone actually revising up selling price plans. Notably, inflationary pressures in Japan are set to intensify, with all three prices net balances hitting record highs in June.

Despite efforts to raise output charges, profits are set to be hit due to the combination of sharply lower optimism around activity and still elevated cost pressures. At the global level, profits were projected to be broadly stagnant as the net balance sank to just +3% . Falls in profits were projected across Europe.

Hiring plans scaled back

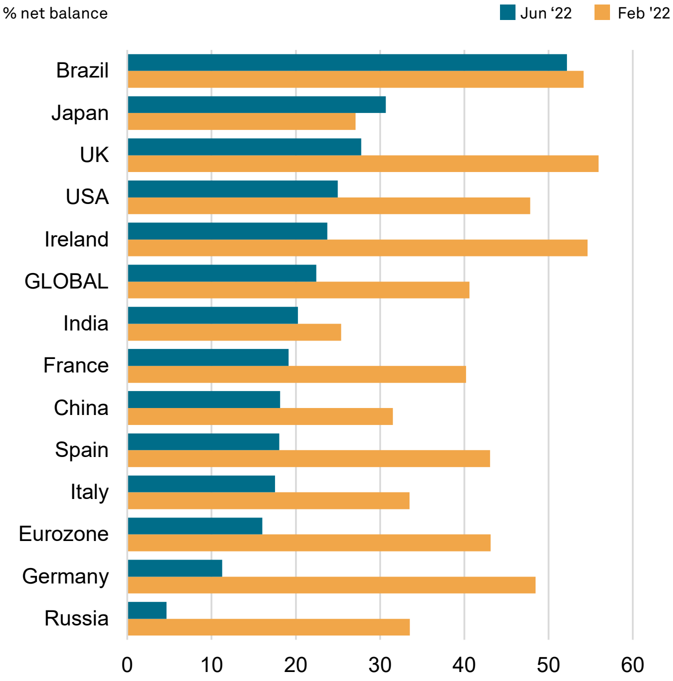
After hitting a survey high earlier in the year, hiring plans were scaled back in June amid draining confidence in the outlook for business activity. The net balance dropped to +13%, the lowest since October 2020 but still broadly in line with the average since the series began in October 2009. Japan was the only monitored country to express greater optimism around workforce numbers as firms build back staffing levels following pandemic disruption.

Manufacturers revised down expectations around employment to a greater extent than service providers.

While firms globally continued to forecast increases in business investment over the coming year, concerns around the health of the economy and ongoing cost pressures led to a drop in sentiment for both capital expenditure and R&D spending, with net balances down to +12% and +6% respectively.

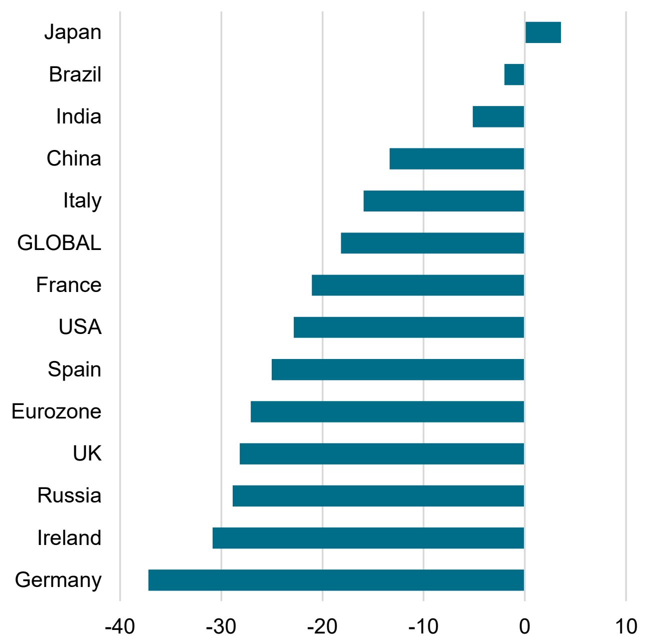
As was the case with business activity and employment, the downward revisions to investment plans were more pronounced in manufacturing than in services.

Global Business Activity expectations
% net balance



Source: S&P Global.

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

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