

News Release

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S&P Global Europe Business Outlook

European businesses at their most optimistic in a year

Key findings

Business confidence rebounds from last October's record low

Corporate earnings outlook turns positive, albeit fractionally, for first time in a year

Hiring and investment intentions improve

After slumping to a survey low in October last year, European business confidence improved markedly during February. Overall, firms across the continent were at their most optimistic in 12 months as easing energy price and supply concerns since the end of last year supported more bullish sentiment. This was especially the case among European manufacturers, where business activity expectations moved back into positive territory.

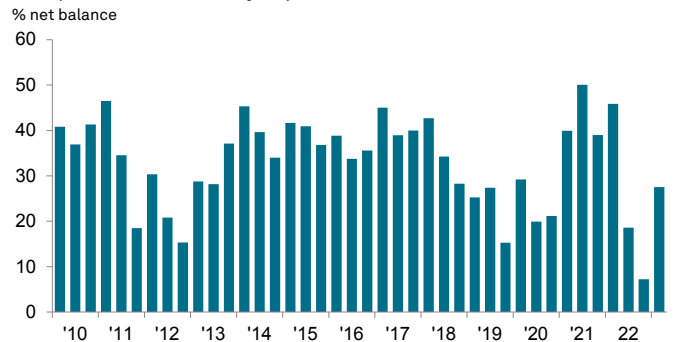
The headline S&P Global Europe Business Activity net balance rose from a survey low of +7% in October last year to +28% in February, signalling the strongest level of business confidence in a year. After turning pessimistic previously, manufacturers were once again optimistic during the latest survey period. The level of positive sentiment across the service sector meanwhile strengthened and was slightly above that seen for goods producers.

Of the European countries covered by the Business Outlook survey, improvements in confidence were seen in each case. Private sector companies in Ireland were the most confident, followed by those in the UK. By comparison, survey respondents in France were the least optimistic across Europe, with growth expectations only fractionally more positive than in October last year. Although sentiment improved markedly in Germany, it remained below the European average.

Employment & Investment

After slumping to a two-year low during the previous

Europe Business Activity expectations



Source: S&P Global.
Data were collected 10-23 February 2023.

Comment

Commenting on the Europe Business Outlook survey data, Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"Since the last Business Outlook survey in October last year, when European business confidence plunged to a survey low, many of the things driving pessimism at the time have fared better-than-expected. Notably, Europe has so far avoided a recession, and energy price and supply concerns have eased as government support packages and some milder winter weather across the continent alleviated market pressures. Subsequently, we saw a rebound in business confidence during February.

"A pick-up in optimism has also led to an improvement in the corporate earnings outlook, which had deteriorated sharply at the end of last year as companies were concerned that high inflation would erode their margins.

"Nevertheless, European companies are expecting their operating costs to rise sharply still over the next 12 months, with wage pressures expected to be a key source of inflation."

survey period, hiring intentions across Europe improved during February. The net balance of firms planning to raise workforce numbers rose from +4% to a one-year high of +17%. Private sector companies in Ireland posted the strongest recruitment plans, followed by those in the UK.

Meanwhile, against a backdrop of rising borrowing costs, European firms reported greater investment intentions during February. The outlook for capital expenditure moved back into positive territory after slipping last October. Levels of positivity for capex forecasts improved at manufacturers and service providers.

Similarly, European companies predicted growth in research and development spending over the next 12 months. A net balance of +4% of businesses anticipated greater investment in this area.

Inflation Expectations

February survey data showed a cooling of inflation expectations across Europe. That said, the increases foreseen for staff costs, non-staff costs and output charges across Europe were greater than their respective global averages.

A net balance of +63% of companies anticipate greater staff costs in the next 12 months. Although this marked a step-down from October (+64%) and June (+65%) last year, it held very close to these levels and signalled strong expectations of wage inflation over coming year. By comparison, forecasts of higher in non-staff expenses were at their softest since June 2021, but still marked overall.

Turning to output charges, European companies plan to raise their selling prices sharply over the next 12 months. A net balance of +36% of firms signalled an intent to mark-up their fees. However, this was the lowest reading for nearly two years. UK companies were by far the most aggressive towards price-setting plans.

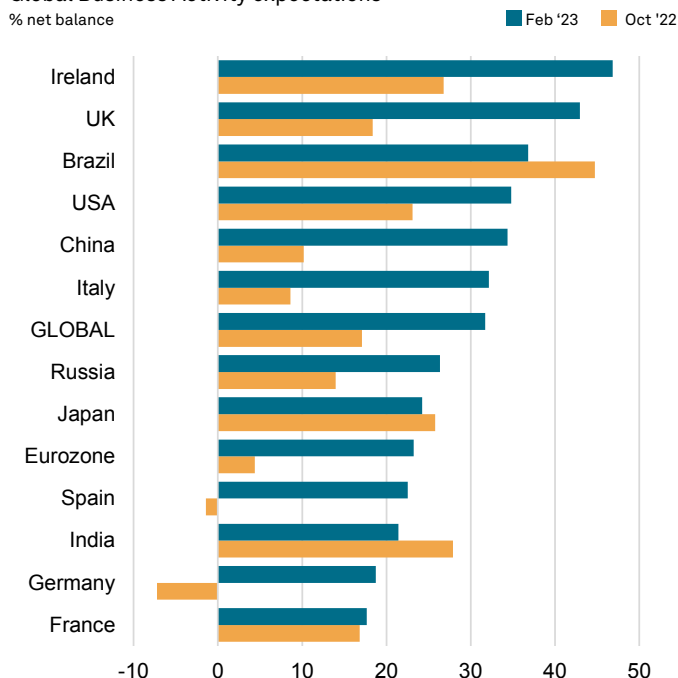
Corporate Earnings

The corporate earnings outlook turned fractionally positive for European companies in February after a survey-record level of pessimism was seen in the previous Business Outlook survey.

That said, profit forecasts varied at the country level, with renewed optimism in Ireland, the UK, Spain and Italy contrasting with pessimistic expectations for firms in Germany and France.

At a sector level, European manufacturers predicted a stable profits after being strongly downbeat last October. Services companies turned slightly optimistic towards the corporate earnings outlook.

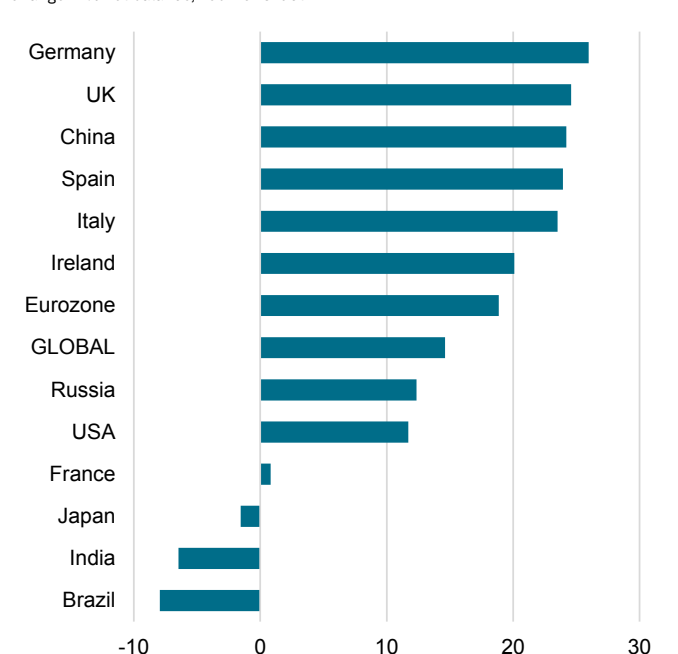
Global Business Activity expectations



Source: S&P Global.

Global Business Activity expectations

Change in % net balance, Feb '23 vs. Oct '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.

The Europe Composite net balances are weighted averages of comparable manufacturing and services net balances. Weights reflect the relative size of the manufacturing and service sectors according to official GVA data. The countries with manufacturing and service sector surveys included in the calculation are France, Germany, Italy, Spain, the Republic of Ireland, and the UK. Manufacturing data also include the Netherlands, Austria, Greece, Poland, and the Czech Republic.

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, 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*. 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.

** The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.*

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