

# News Release

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## S&P Global Europe Business Outlook

### Business confidence slides to lowest level since October 2019

#### Key findings

Broad-based softening of business sentiment across Europe in June

Inflation expectations remain at stubbornly-elevated levels

Most downbeat corporate earnings outlook on record

Private sector companies across Europe remained optimistic of growth over the coming 12 months, although the degree of positivity slid to its lowest level since October 2019. The drop in confidence reflected less positive outlooks at both manufacturing and services companies, although the former recorded the sharpest deterioration.

Meanwhile, the latest Business Outlook survey signalled rising inflation expectations. Both staff and non-staff costs are predicted to rise at the quickest rates in their respective series histories. As a result, firms reported plans to raise their selling charges, with output price inflation expectations also at a joint-series high.

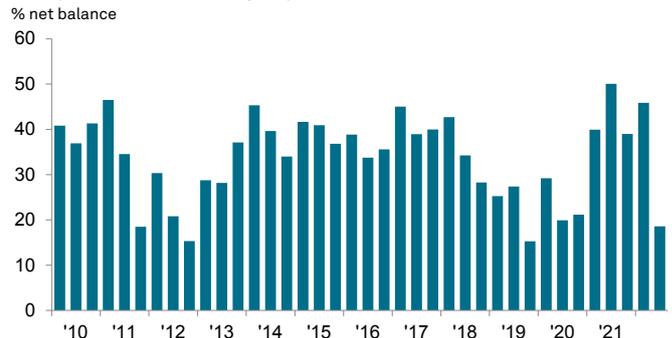
The headline S&P Global Europe Business Activity net balance declined to +19% in June, down markedly from +46% in February. The softening in business sentiment across Europe reflected a broad-based drop in confidence across the countries monitored by the survey. The weakest level of optimism was seen in Germany (+11%), and the strongest in the UK (+28%).

#### Employment & Investment

In line with weaker growth expectations in the year ahead, latest Business Outlook data showed a softening of hiring and investment intentions during June. Regarding the outlook for employment, a net balance of +14% of private sector firms in Europe expect to increase their workforce numbers over the coming year, the lowest since October 2020.

Capex plans remained positive in June across the

Europe Business Activity expectations



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

#### Comment

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

*"The business outlook for Europe softened notably in June, reflecting the intense economic headwinds firms across the continent face such as rampant price pressures and the ongoing war in Ukraine. Overall, the level of optimism stood at its weakest since October 2019 amid rising recession risks."*

*"Inflation remains a key challenge for companies over the next 12 months. The latest survey data highlight inflation expectations at a record level (since 2009), with firms clearly concerned about the effect this will have on profitability. Corporate earnings forecasts were at their most downbeat in the Business Outlook survey history in June."*

European private sector, with a net balance of +7% of companies intending to raise their capital spending. That said, this signalled the weakest investment intentions since October 2020.

Meanwhile, expenditure on research and development was predicted increase over the coming 12 months, although the net balance of firms that signalled positive plans fell to +3%, its lowest in close to two years.

### Inflation Expectations

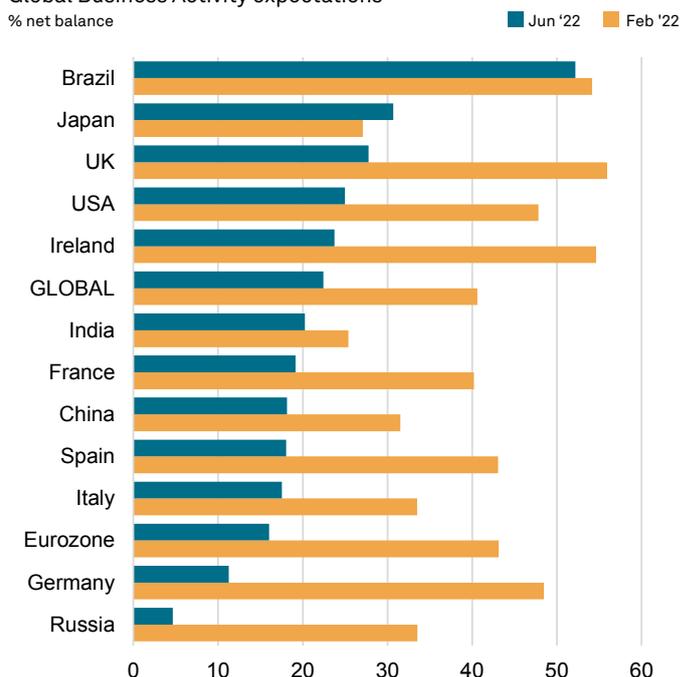
European private sector firms anticipate an intensification of price pressures over the next 12 months, with expectations regarding both staff and non-staff costs increasing. At +64%, the net balance of companies predicting an increase in non-staff costs was the highest on record and marked a sixth successive survey period in which inflation expectations have risen. Similarly, the net balance of firms that foresee rising staff costs hit a series record of +65%.

To offset the impact of rising operating expenses, businesses reported their plans to lift selling charges over the next 12 months. The net balance of companies that intend to increase their prices was unchanged at a survey-record +46% in June. That said, sector level data showed divergent trends as a slight softening at manufacturers compared with more aggressive price-setting plans at service providers.

### Corporate Earnings

With costs expected to continue soaring and the outlook for business activity turning less optimistic, firms were downbeat towards profitability over the coming 12 months. A net balance of -11% of survey respondents foresee corporate earnings deteriorating, marking the first time since mid-2020 that firms were gloomy towards profits. Moreover, the outlook for profitability was at its most negative since comparable data were first available in 2009. Negative company earnings expectations were broad-based by sector, while at the aggregate level all monitored European countries registered pessimism in June. Businesses in Germany were the most downbeat by a considerable margin (-29%).

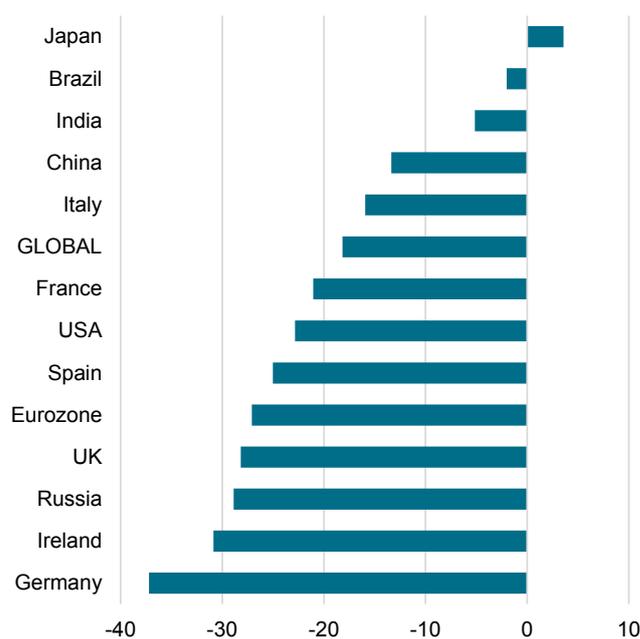
Global Business Activity expectations



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](mailto: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 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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