

News Release

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S&P Global Business Outlook

Global business sentiment wanes, while inflation set to stabilise

Key findings

Confidence in the outlook for output at one-year low in October

Services confidence dips, moving closer to manufacturing

Sharpest drop in optimism seen in euro area

Period of easing inflation set to finish

Muted sentiment around hiring and investment

The S&P Global Business Outlook Survey – based on responses from a panel of 12,000 companies between October 11-27 – indicated that business sentiment waned in the final quarter of the year. A less positive outlook in the service sector was accompanied by still muted optimism in manufacturing. Employment and investment intentions also deteriorated. Meanwhile, the recent period of slowing inflation looks set to be coming to an end.

The net balance of companies worldwide predicting a rise in business activity over the coming year dipped for the second successive outlook survey, down to +25% of companies in October from +28% in June. The reading signalled the weakest optimism for a year.

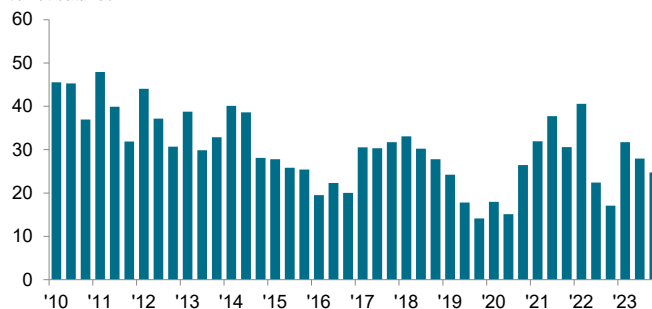
After having remained solid in the June outlook survey, confidence among service providers globally softened to a one-year low in October as the net balance dropped to +26% from +31%. This brought sentiment in the service sector closer to that of manufacturing, where the net balance was unchanged at +20%.

Sentiment generally moved down in line with the global average across the different countries monitored, the notable exception being the US, where firms grew more confident in the outlook thanks to services optimism hitting the highest since early-2022 and manufacturing sentiment also picking up. Russian firms were also more upbeat, hoping for greater economic stability over the coming year.

The most marked reductions in sentiment were meanwhile found in the eurozone, with downward

Global Business Activity expectations

% net balance



Source: S&P Global PMI.

Data were collected 11-27 October 2023.

Comment

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

“The October Business Outlook survey suggests a general sense that growth is set to peter out across much of the global economy, with the notable exception of the US, where firms have become more upbeat.”

“The outlook was particularly weak in the eurozone. Combined with the latest monthly PMI data for the region, recession may be looming.”

“Expectations around prices suggest that, after a sustained period in which inflationary pressures have been coming down, rates of increase are set to stabilise over the coming year or even rise slightly again. Central banks around the world will need to decide whether they are content with the level that inflation rates ultimately settle at, and can therefore bring interest rate hiking cycles to an end, or whether further action will be required.”

“The generally subdued outlook for activity looks set to result in caution among firms with regards to hiring activity and investment decisions.”

revisions seen across the major member states. Optimism was particularly weak in Germany and France, with the latter recording the lowest confidence in 11 years.

Slowdown in inflation set to end

Latest outlook data suggest that the sustained easing of inflation that has been seen over the course of 2023 is due to end over the coming year.

After having fallen in each survey since hitting a peak in June 2022, the non-staff costs net balance ticked up to +27% in October from +24% in June. Non-staff inflation expectations were upgraded in both the manufacturing and services sectors. Only companies in the UK, Germany and Brazil continued to revise down their expectations related to non-staff cost inflation.

Solid wage pressures also look set to continue, with the staff costs net balance ticking up to +37% in October from +36% in June. Staff cost expectations were again much higher in developed markets than in emerging economies.

Despite cost pressures being expected to rise, output price expectations were stable, but the unchanged picture ended a four-survey sequence of falling net balances. At +21% the latest reading was still above the series average. The net balance dipped in services, but this was cancelled out by an increase in inflation expectations in manufacturing.

Stability at the global level masked differing trends across the monitored countries. Inflation expectations in Germany and Brazil were noticeably lower in October, but France, Spain, Ireland and Russia all saw marked upward revisions to their selling price forecasts.

In line with the picture for business activity, sentiment around profitability dropped to a one-year low in October (net balance at +9%). Pessimism was signalled in the euro area, with firms in France and Germany particularly downbeat. The UK was the only country covered to record higher sentiment regarding profits than in June.

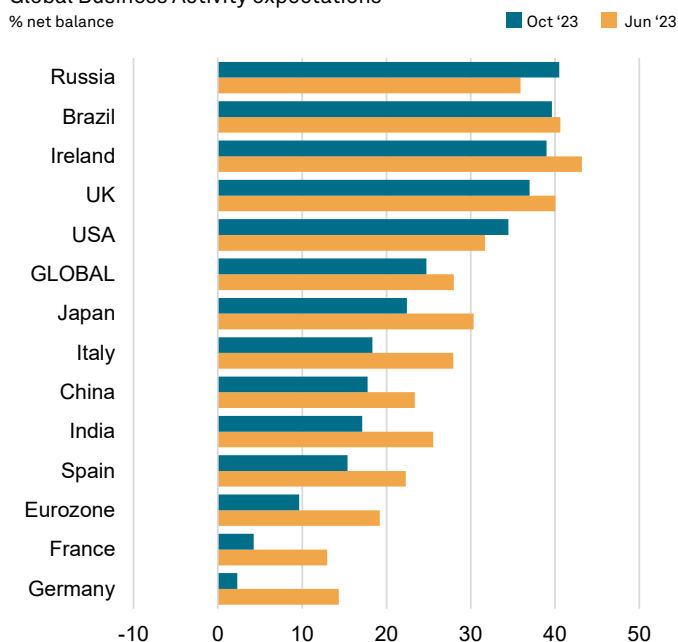
Muted job creation predicted

The less positive outlook for business activity meant that plans around hiring and investment were subdued in October.

The net balance for employment in the year ahead fell to +10% from +12% in June and was below the average of +14% seen since the series began in October 2009. Payroll expectations dropped in both the manufacturing and services sectors. Weakened hiring intentions were signalled in the eurozone, UK, Japan, India and mainland China, while firms in Germany predicted an outright fall in employment. US hiring plans were unchanged on June's survey.

Capex plans were meanwhile lowered in all but two countries in October, with Brazil and Russia the exceptions. Globally, a net balance of +8% of

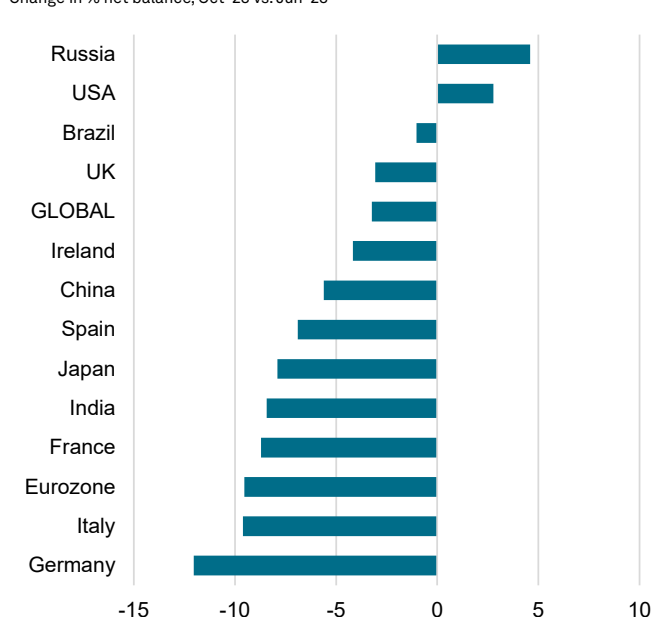
Global Business Activity expectations



Source: S&P Global PMI.

Global Business Activity expectations

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



Source: S&P Global PMI.

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

companies predicted a rise in capex, down from +10% in June.

For R&D expenditure, the picture was more nuanced, with plans for greater spending in the emerging markets contrasting with a largely unchanged picture in the developed markets. Overall, the net balance held steady at +4%.

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*. 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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