

News Release

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S&P Global US Business Outlook

US inflationary pressures expected to ease, as cost predictions moderate in June

Key findings

Expectations for input costs and output charges adjusted downwards

Staff costs forecast to be main driver of inflation over the coming year

Business confidence regarding future activity softens

The S&P Global US Business Outlook survey signalled further positive output expectations for the coming year. At +32%, the net balance of firms anticipating a rise in business activity was lower than February's one-year high of +35%. Nonetheless, the latest data compared favourably with the global average (net balance of +28%). The moderation in expectations was led by the manufacturing sector, where the net balance dropped to the lowest since October 2022 (+26%, from +39%). Meanwhile, service providers saw output forecasts little changed from February (+33%, from +34%).

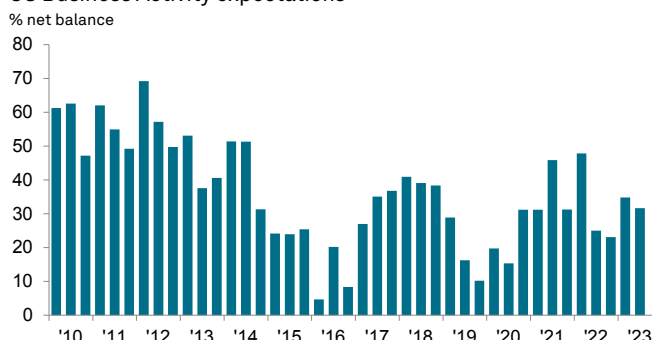
Where firms identified opportunities for growth, these were largely focused on efforts to attract and retain customers, with many citing investment in marketing and client liaison work. Companies also noted planned expansions into new markets and the release of new product lines. At the same time, firms hopes that inflation will moderate and help to alleviate pressure on client budgets.

Nonetheless, companies noted that threats to future output remain. Fears of a possible recession and persistent inflation, alongside higher interest rates, were often highlighted by firms, as uncertainty is expected to exacerbate the strain on customer spending. Meanwhile, panellists continued to mention difficulties finding suitable staff for vacancies which has hampered efforts to expand capacity.

Overall cost pressures set to ease, but firms project strong wage inflation

June data indicated that US companies expect

US Business Activity expectations



Source: S&P Global PMI.
Data were collected 12-28 June 2023.

Comment

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

"US businesses remained upbeat in their expectations for the coming year in June, albeit with forecasts for growth moderating from February. Concerns regarding inflation and subdued client demand weighed on predictions for the next year, with many firms highlighting that opportunities for expansion stemmed from proactive measures to promote goods and services. Although firms were more confident of a rise in capex, companies expect to scale back R&D spending in the coming year in an effort to cut costs.

"On the price front, firms anticipate that inflation will be led by strong wage pressures, as strain on supply chains eases and material availability improves. At the same time, firms remain confident of increases in selling prices and profit opportunities.

"Projections of greater wage bills come alongside weaker forecasts for hiring, however. The net balance of firms planning to recruit additional staff was among the lowest seen for three years due to service sector companies revising down their expectations."

further increases in both staff and non-staff costs over the coming year. Although the lowest for two years, the net balance of firms anticipating greater staff costs was historically elevated and exceeded that seen for non-staff costs (+41% versus +24%). Manufacturers revised down their expectations notably from February, while service providers trimmed their forecasts for wage inflation only slightly.

The net balance of companies that foresee greater non-staff costs, despite being above the series average, dropped to the lowest since October 2020 (+24%).

Meanwhile, firms plan to raise their output charges over the coming year. The net balance of companies predicting higher selling prices fell for the fourth successive survey period, however, and was the lowest since February 2021 (+30%).

Employment expectations among weakest in three years

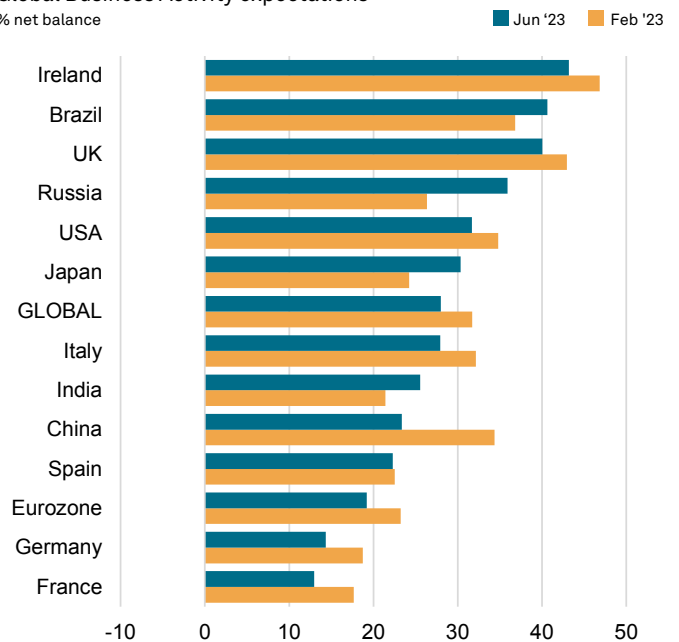
Manufacturers and service providers alike continue to forecast greater employment over the next 12 months, despite expectations weakening since February. The net balance of companies that foresee job creation dipped from +20% to +15%, with the reduction led by the service sector where expectations fell to their weakest in three years. Goods producers' hiring plans were unchanged from February.

June data signalled upbeat expectations regarding capex (capital expenditure) for the coming year, but forecasts for R&D (research and development) spending turned negative. The net balance of firms anticipating greater R&D spending was in negative territory for the second time in the last three survey periods.

Profitability forecasts remain positive

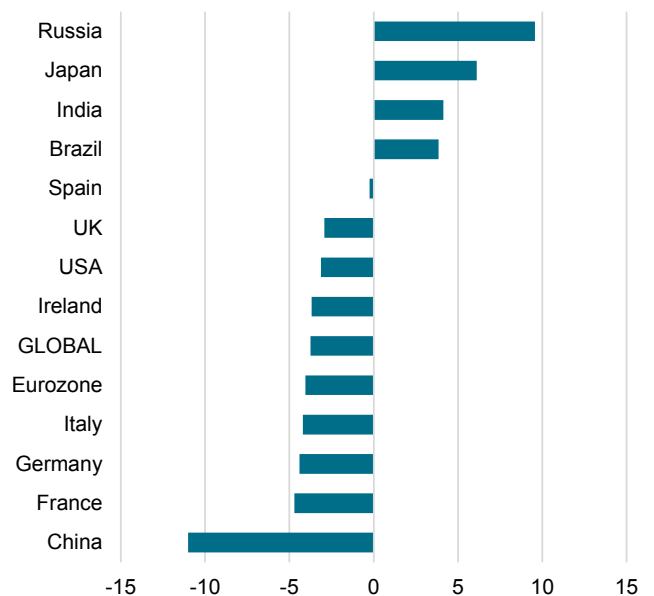
Companies remained confident that profitability will improve over the coming year. The net balance of firms expecting greater profits slipped, however, from February's one-year high of +22% to +18% in June and was below the long-run series average. Nonetheless, the net balance compared favourably with the global average of +14%. Only companies in Russia, Brazil and Ireland registered stronger predictions for profitability.

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

Global Business Activity expectations
Change in % net balance, Jun '23 vs. Feb '23



Source: S&P Global PMI.

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 8,000 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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