

News Release

Embargoed until 2301 UTC 16 July 2023

S&P Global Europe Business Outlook

European business confidence weakens slightly in June

Key findings

European firms' growth projections soften slightly from February's one-year high

Inflation expectations ease but hiring and capex plans soften

Outlook for profitability remains only fractionally positive

The level of optimism among private sector firms in Europe towards business activity over the next 12 months weakened slightly during June, latest Business Outlook survey data from S&P Global showed. Overall, growth expectations moderated from February's one-year high, primarily due to a weakening of positive sentiment across the manufacturing sector. Optimism among European service providers was only fractionally softer than seen previously.

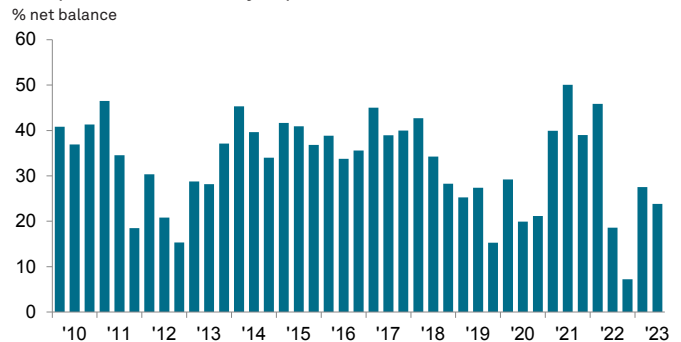
The headline S&P Global Europe Business Activity net balance recorded +24% in June, indicating optimism among private sector companies across the continent towards the 12-month outlook for output. However, this was slightly below February's one-year high of +28%, thus signalling a slight erosion of confidence.

Of the European countries covered by the Business Outlook survey, confidence weakened in a broad-based fashion during June. Private sector companies in France were the less optimistic towards output, closely followed by Germany. Ireland recorded the strongest level of optimism across Europe for a third successive survey period, narrowly surpassing that seen for the UK.

Employment & Investment

Hiring intentions for the coming year remained positive across Europe's private sector during June, as evidenced by a net balance of +14% of firms that expect workforce numbers to increase. While this was slightly down from +17% in February, the figure was broadly level with its long-run average. At the country

Europe Business Activity expectations



Source: S&P Global PMI.
Data were collected 12-27 June 2023.

Comment

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

"The outlook for the European economy remains surprisingly resilient, with growth expectations nudging only slightly lower from February. Much of this optimism lies in the service sector however, with manufacturing confidence remaining subdued. This suggests that a two-speed economy may persist for a while longer.

"More positively, there was a further cooling of inflation expectations across Europe. Anticipated increases in staff and non-staff costs softened from February, which fed through to more benign price-setting plans.

"Nevertheless, firms remained fairly conservative towards the outlook for profits, which suggests that pricing power is set to be constrained over the next 12 months. From a consumer and policymaker perspective, this can be viewed as a positive as it should help contain inflationary pressures."

level, survey data showed that recruitment plans were at their strongest in Ireland, followed by the UK.

Amid rising borrowing costs, private sector firms across Europe recorded weaker capital spending plans for the year ahead. This was signalled by the net balance of firms predicting higher expenditure on fixed assets falling from +10% to +7%. With the exception of the UK, investment intentions softened across the board.

Meanwhile, the outlook for research and development held steady in June. The net balance of companies planning to raise R&D investment was unchanged at +4%.

Inflation Expectations

While European businesses foresee further rises in their staff and non-staff costs over the next 12 months, expectations softened in June. A net balance of +38% of companies anticipate greater non-staff expenses, the lowest figure since February 2021. Similarly, the net balance of companies that foresee a rise in their wage bills fell to +56%. While still steep, it was down from +63% in February to the lowest since October 2021.

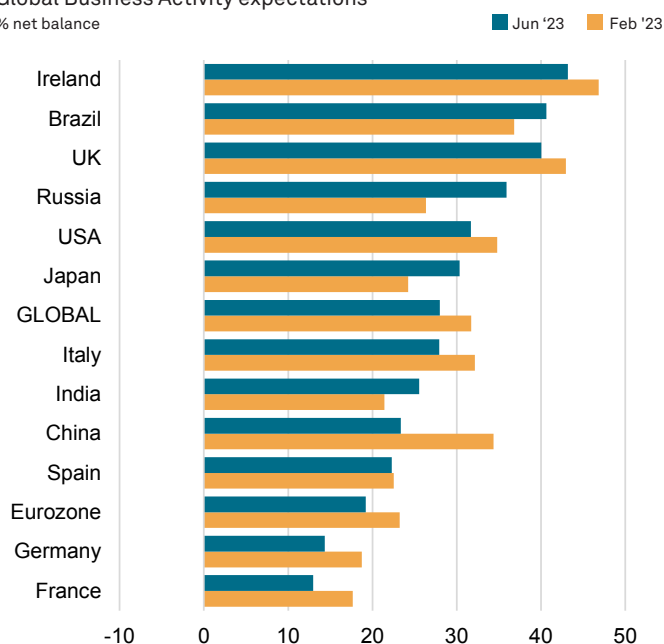
With regards to output charges, private sector firms across Europe signalled their intent to raise their prices over the next 12 months. However at +24%, the net balance fell for a third successive survey period to its lowest since February 2021, indicating a sustained cooling of output price inflation expectations. Each of the monitored European countries recorded weaker intentions to lift output prices when compared with February, although UK companies retained the most aggressive price-setting plans by a considerable margin once again.

Corporate Earnings

The outlook for profits across Europe remained only fractionally positive during June, with the net balance of companies predicting higher corporate earnings staying unchanged from February at +1%. However, at a sector level, the latest survey data indicated renewed pessimism towards profitability among European manufacturers. This was offset by a slight improvement in corporate earnings forecasts at service providers.

At a country level, there was a considerable degree of variability, with strongly negative sentiment towards profits in Germany contrasting with improving confidence in Ireland.

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 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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