

News Release

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S&P Global Business Outlook

Service sector optimism points to sustained global economic resilience in coming year

Key findings

Optimism around output remains elevated but softens amid factory gloom

Service providers report elevated confidence

Sentiment notably lower across Europe and in the US

Inflationary pressures set to soften

Further increases in staffing levels predicted

The S&P Global Business Outlook Survey – based on responses from a panel of 12,000 companies between June 12-28 – pointed to a slight softening of confidence midway through 2023. Although output, employment and investment are all projected to expand globally, expectations were revised down in all cases. Meanwhile, there was further evidence of softening inflationary pressures.

A common theme through the latest outlook survey was differing expectations between the manufacturing and service sectors. Optimism at service providers generally held up better than at their manufacturing counterparts.

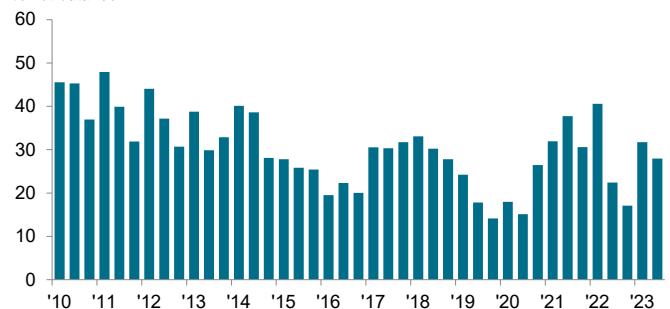
Overall, the net balance of companies worldwide predicting a rise in business activity over the coming year ticked down to +28% in June from +32% in February's prior survey. Although deteriorating, business confidence was still the second-strongest since early-2022.

Each of the six European economies for which combined manufacturing and services data are available saw a drop in confidence since the February outlook survey. A slight pull-back in sentiment was also seen in the US. Meanwhile, optimism in mainland China waned following the jump in sentiment after the removal of pandemic related restrictions around the turn of the year.

Elsewhere, there were improvements to confidence regarding business activity in Brazil, India, Japan and Russia compared to February's survey.

Global Business Activity expectations

% net balance



Source: S&P Global PMI.

Data were collected 12-28 June 2023.

Comment

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

“Companies around the world maintained an encouraging sense of optimism at the midway point of 2023 despite widespread cost-of-living pressures and interest rate hikes. A more buoyant outlook among service providers than at manufacturers is widely evident, suggested the post-pandemic tailwind of increased spending on services has further to run.

“Policymakers will be relieved to see predictions of price pressures softening, but the data suggest more of a gradual slowdown than a sudden collapse in inflation. Staff costs in particular are still set to rise at an elevated pace over the coming year, meaning that companies are also likely to keep increasing their selling prices.

“While firms remain confident in the year-ahead outlook for now, and are set to continue to raise employment and investment spending accordingly, any further weakening of demand in the months ahead may act to dent confidence further over the second half of the year.”

The weakening of optimism at the global level was mainly a result of a drop in confidence at manufacturing firms, where the net balance fell to +20% in June from +31% in February to run well below the long run average of +31%. Service providers, meanwhile, expressed broadly similar levels of sentiment to the start of the year. The net balance was at +31% in June, down only marginally from February's reading of +32% and in line with the long-run average.

Inflation set to slow

The June outlook survey suggested that inflationary pressures are set to ease over the coming year.

At +24%, the non-staff costs net balance was the lowest since the October 2020 survey and down sharply from a peak of +38% this time last year, albeit still above the average since the series began in 2009. The eurozone posted a particularly marked downward shift in non-staff cost expectations. Meanwhile, service providers posted a higher net balance for non-staff costs than manufacturers.

The reduction in the net balance for staff costs (+36% from +40%) was less pronounced than that seen for non-staff expenses, hinting that wage pressures are set to remain elevated. Expectations for a rise in staff costs were stronger at services companies than at manufacturing firms.

In line with the picture for input costs, firms globally also foresee a moderation of selling price inflation over the year ahead. At +21%, the output charges net balance was down to the lowest since the February 2021 outlook survey.

With input cost and output price expectations moving down in tandem, the impact on profitability was broadly neutral. June saw optimism regarding profits weaken fractionally from February. Firms in the eurozone predicted a decline in profits, but this was outweighed by optimism elsewhere.

Hiring set to soften

Companies worldwide maintained plans to expand workforce numbers over the coming year. At +12%, the net balance was down from that seen in February (+17%), however, to signal a slightly lower degree of confidence than at the start of the year. All monitored countries expect employment to increase over the next 12 months, though only Japan and Russia expect to step up the pace of hiring.

Investment plans were also lowered slightly, but further expansions in spending on capital (net balance of +10%) and R&D (+4%) are expected. Growth of capex was most widely predicted in Russia, Japan and Italy, with the latter leading the way in terms of R&D forecasts. On the other hand, France and the US projected reductions in R&D spending.

Bucking the wider trend across the June outlook survey, manufacturers were more optimistic about R&D expenditure than their service sector counterparts.



Source: S&P Global PMI.



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.

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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