

# News Release

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## S&P Global Europe Business Outlook

### European business confidence sinks to survey low in October

#### Key findings

Lowest level of business optimism since series started in 2009

European corporate earnings outlook most negative on record

Cost inflation expectations at survey peak amid energy crisis

Business confidence across Europe deteriorated further in October, according to the latest S&P Global Business Outlook survey. Having started 2022 with strong optimism for the year ahead, the energy crisis, geopolitical uncertainty, rising interest rates and recession risks have contributed to a substantial softening of business activity expectations.

The headline S&P Global Europe Business Activity net balance fell to +7% in October, down from +19% in June to record its lowest reading since data became available in late 2009.

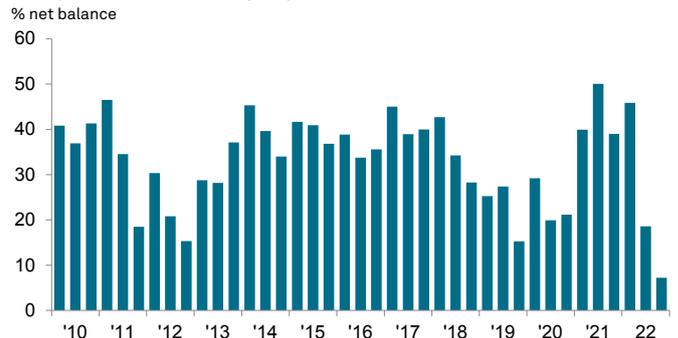
Of the European nations covered by the survey, Business Outlook data showed private sector companies in Germany and Spain anticipating lower output levels in the year ahead. Growth expectations in the year ahead for the UK, France and Italy all weakened since June, although Ireland bucked the broad trend and recorded a slightly stronger level of optimism.

Latest survey data also revealed a weakening of confidence by sector across Europe. Services firms still expect business activity levels to rise over the coming 12 months, although growth was forecast to be considerably weaker than predicted in June. On the other hand, manufacturers foresee a drop in production volumes.

#### Employment & Investment

Private sector companies in Europe continued to show their intentions to hire extra staff in the coming year, although recruitment plans eased markedly since June. A net balance of +4% of companies intend to

Europe Business Activity expectations



Source: S&P Global.  
Data were collected 11-27 October 2022.

#### Comment

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

*"Since the first Business Outlook survey of the year in February, we've seen a remarkable drop in European firms' confidence. Geopolitical tensions, soaring energy costs, rising interest rates and recession risks are clearly weighing on growth prospects in the year ahead, and we saw business activity expectations slump to their weakest on record in October."*

*"In some cases, we saw companies forecast a contraction in economic activity over the next 12 months – German businesses were the most downbeat, while survey respondents in Spain were likewise pessimistic. Compared to confidence in other parts of the world such as in the US and China, European companies were by far the least optimistic. With so much uncertainty surrounding the energy crisis, companies are struggling to plan ahead, while the prospect of a recession and diminishing customer purchasing power due to high inflation add further risks to the European economy."*

*"Inflation expectations remained extremely elevated in October, creating substantial headwinds to the outlook for corporate earnings and business investment. Both measures were in negative territory in October."*

raise employment in the coming year, down from +14% to their lowest in two years. Spain, Germany and Italy all recorded expectations of staff cuts over the next 12 months.

The outlook for capital expenditure fell into negative territory, signalling expectations among companies for a reduction in investment. Sector data showed neutral sentiment towards capex across services firms, with the investment downturn driven entirely by manufacturers.

Research and development spending plans were also in negative territory during October, the first time this has been the case in two years. A net balance of -4% of companies were expecting R&D cuts.

### Inflation Expectations

Business Outlook data showed expectations of stronger inflation over the next 12 months, reflecting intensifying pressures arising from a variety of sources. Energy costs were expected to be a major driver of inflation, although some survey respondents were concerned about prices for raw materials and transportation. A net balance of +65% of businesses predicted higher non-staff expenses over the next 12 months in October, up fractionally to a new series record.

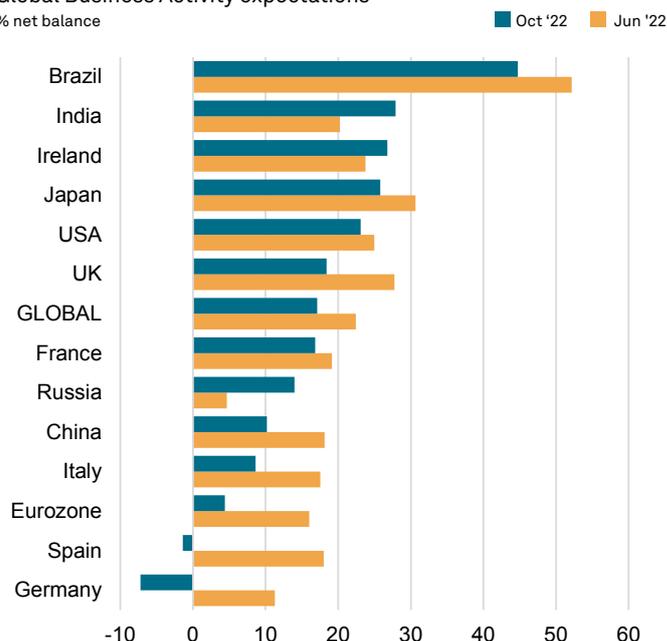
Meanwhile, despite a softening of hiring intentions across Europe, firms are anticipating a sharp rise in their labour costs. The net balance was broadly unchanged from June's record (data were first collected in February 2019).

### Corporate Earnings

With expectations for inflationary pressures to remain steep, and businesses turning less optimistic towards activity in the year ahead, the outlook for corporate earnings worsened markedly since June. A net balance of -22% of companies anticipated lower profitability across the next 12 months, the most downbeat assessment since composite data became available in October 2009.

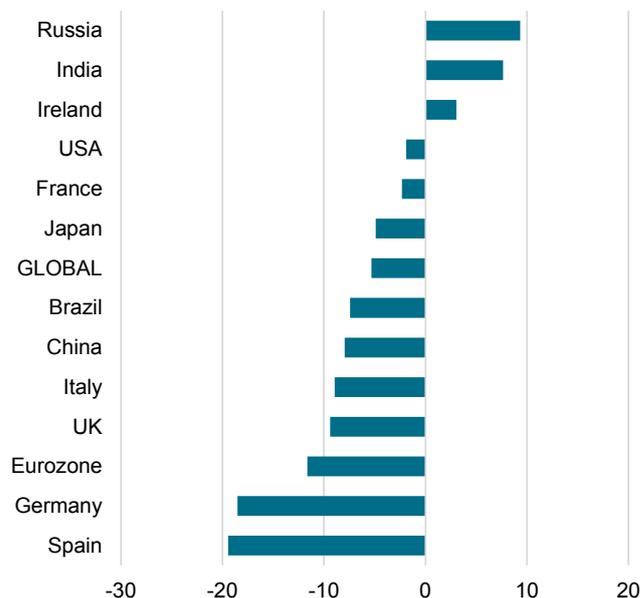
The negative outlook for corporate earnings was also broad-based at the country level, with German companies registering the strongest level of pessimism by a considerable margin.

Global Business Activity expectations  
% net balance



Source: S&P Global.

Global Business Activity expectations  
Change in % net balance, Oct '22 vs. Jun '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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