

Global outlook

Business confidence improves amid signs of maturing recoveries

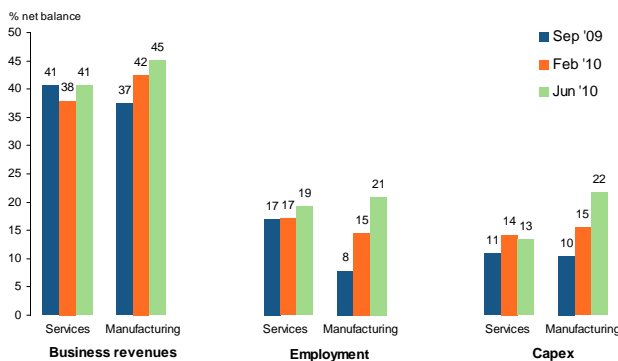
- Investment and employment set to pick up as recoveries remain on track.
- Optimism improves in developed world but eases in emerging markets.

The summer 2010 Global Outlook Survey, compiled by Markit for KPMG three times a year and based on 11,000 survey respondents, revealed growing optimism compared to earlier in the year.

Although the overall expectation about business revenue growth for the coming year was largely unchanged on the buoyant picture seen back in February, the June survey saw a welcome improvement in companies' expectations about employment and capital expenditure for the year ahead. This suggests that the global recovery is moving into a more mature, self-sustaining, phase.

The survey also saw a more even pattern of confidence between emerging and developed countries. The BRIC countries had led the developed world in terms of expected growth of business revenues, employment and investment in the February survey, but the differential narrowed in the June survey. Of particular note, upturns in confidence were seen in the US, Japan, Germany and France, while optimism waned in China and Brazil.

Expectations for the year ahead¹



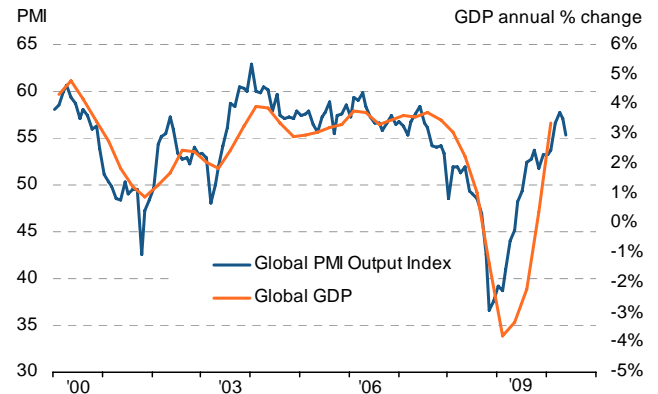
¹ Net balances show the percentage of respondents expecting an increase at their companies over the next 12 months minus the percentage expecting a decrease.

Business revenues

The number of companies globally expecting their business revenues to be higher in a year's time exceeded those expecting a decline by 41% for services and 45% for manufacturing. This represents an improvement on 38% and 43% respectively in the February survey and therefore paints an encouraging picture for global gross domestic product.

The JPMorgan Global PMI suggests that GDP rose worldwide at an annual rate of 3-4% in Q2, but that the rate of increase slowed towards the end of the quarter. The Outlook survey therefore raises hopes that the slowdown will be only mild and suggests that fears of a 'double-dip' recession are overplayed.

Global GDP



Source: Markit, JPMorgan.

- Manufacturers were again slightly more upbeat about business revenues growth than service providers, though confidence improved in both sectors compared to February.
- Of the largest developed and emerging nations, the highest level of optimism about business revenues in the year ahead was recorded among Brazilian manufacturers, followed by US goods producers.
- Spanish service companies were the least optimistic, having seen one of the largest drops in confidence compared to the February survey,

followed by service providers in Japan, despite the latter recording one of the largest improvements in confidence since the previous survey. Japan's manufacturing sector was also particularly downbeat about revenue prospects, even though optimism picked up since February.

- The change in confidence among developed countries since February was striking: whereas firms in the US, Japan, Germany and France grew more optimistic, the UK, Spain and Italy saw confidence levels slip, especially in the service sectors (small improvements were seen in the Spanish and Italian manufacturing sectors, but nothing like the gains seen in other developed countries).
- The drop in optimism in the UK, Spain and Italy most likely reflects concerns about the impact of looming public sector spending cuts.
- Strong variations in the change in optimism among BRIC countries were also apparent. Chinese and Brazilian companies have become less upbeat compared to the February poll, presumably reflecting deliberate policy tightening in these countries, whereas India saw growing optimism, as did Russia's service sector. The latter is encouraging as Russia has so far lagged behind in the global recovery.

Employment

- With ongoing fears that 'jobless recoveries' may constrain economic growth in key developed countries such as the US, it is encouraging to see firms' hiring intentions pick up in the June survey, especially in manufacturing.
- The proportion of manufacturing companies worldwide that expect to boost payrolls over the coming year exceeded those expecting a decline by 21% (up from 15% in February and just 8% last September). This compares with 19% in services (up from 17% in February).
- Of the developed countries, US companies were the most upbeat about employment whereas Spanish companies were the most pessimistic, expecting to cut payrolls on average.
- Japan's employment prospects remained particularly bleak, and French and Italian

manufacturers also expect to trim headcounts over the coming year.

- Strong employment growth is signalled for the BRIC nations, although in many cases companies were less optimistic than in the February poll.

Capital expenditure

- Planned capital expenditure over the next year has also improved substantially since the February survey, adding to indications of a more sustainable recovery. However, the main improvement was seen in manufacturing. Expectations of growth slipped slightly in the service sector but are nonetheless consistent with an increase in capex.
- The BRICs, led by Brazil, have the strongest capex intentions, followed by the US. Japan and Europe lag behind, although in many cases intentions have picked up considerably since earlier in the year (most notably in German manufacturing and French services).
- Worryingly, UK manufacturing and service sector companies were less upbeat about capital spend than they had been in February, leaving the UK manufacturing sector with the lowest expectation of capex of all major countries.

Profits

- Of the major countries surveyed, only Spanish service sector companies expect profits to fall over the coming year, though Japanese companies were also downbeat about prospects.
- US companies were particularly optimistic, exceeded only by confidence levels among Brazilian manufacturers.
- UK, Spanish, Chinese and Brazilian companies were all notably less optimistic than in the February poll.

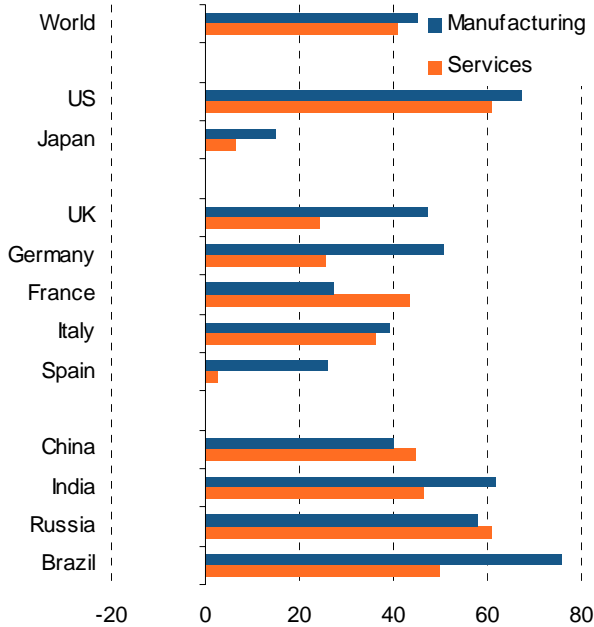
Further information

The Outlook Survey also covered other smaller countries as well as numerous other variables, including input costs, staff costs, business activity levels, new orders, capacity utilisation, R&D and inventories. For further information and to download a **free full copy of the survey results**, please visit <http://www.markit.com/en/about/news/commentary/markit-economics/markit-economics.page>

Business revenues

Business revenues in 12 months time

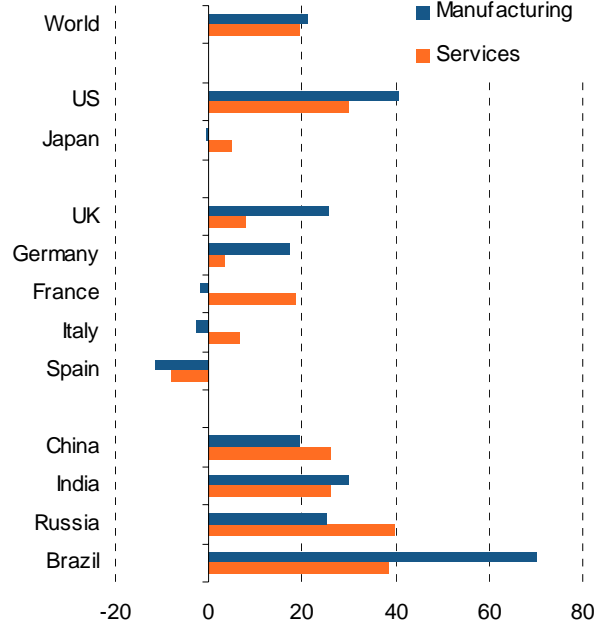
% expecting increase in 12 months time minus % expecting a decline



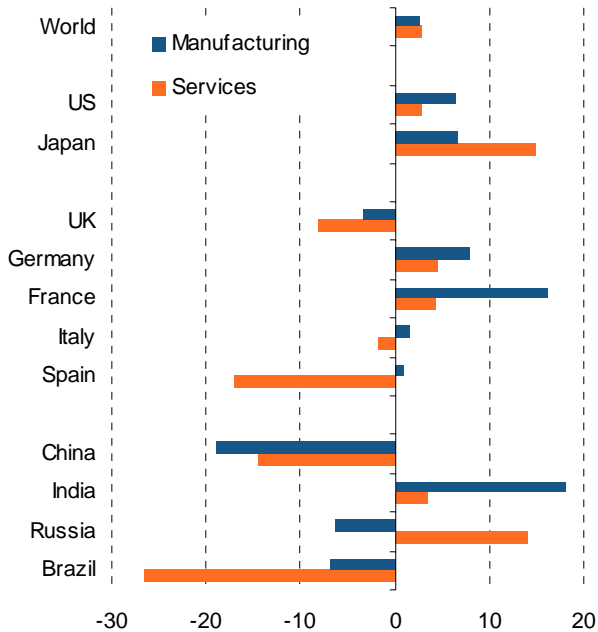
Employment

Employment in 12 months time

% expecting increase in 12 months time minus % expecting a decline

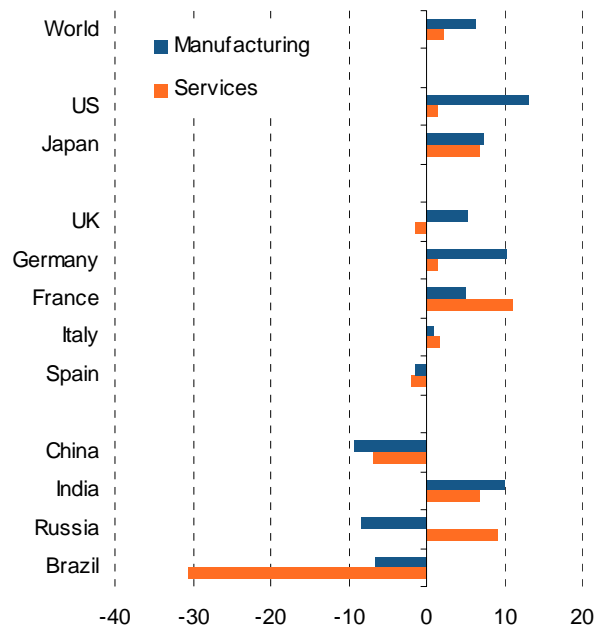


Change in % net balance shown above since February survey



Source: Markit

Change in % net balance shown above since February survey

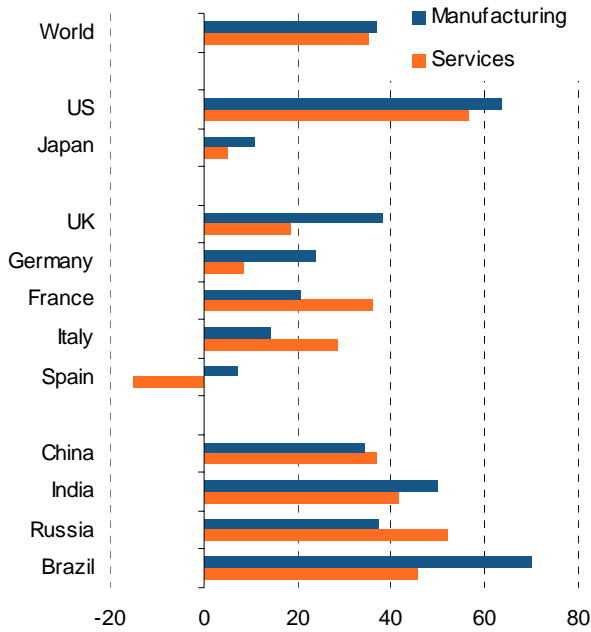


Source: Markit.

Profits

Profits in 12 months time

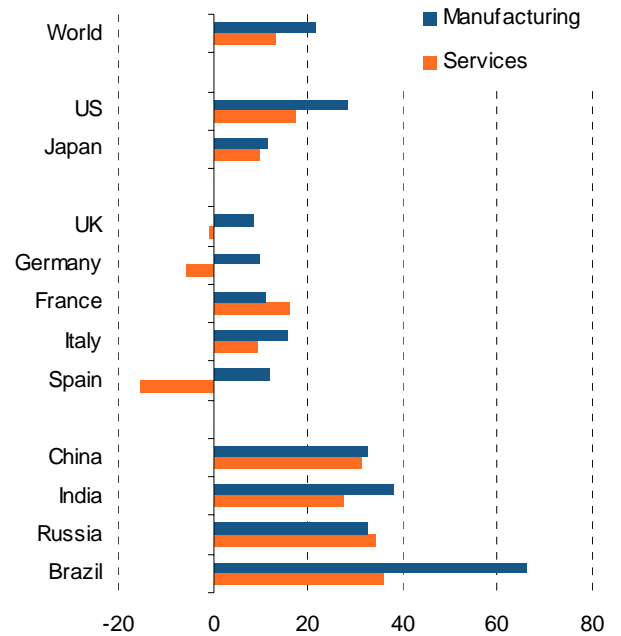
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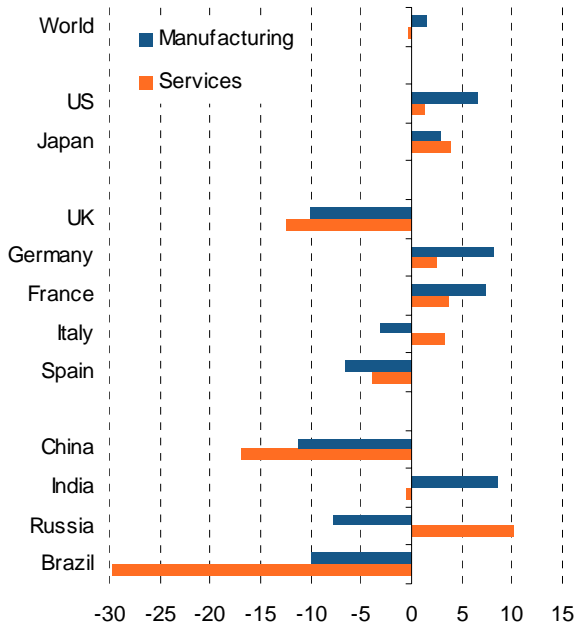
Capital expenditure

Capital expenditure in 12 months time

% expecting increase in 12 months time minus % expecting a decline

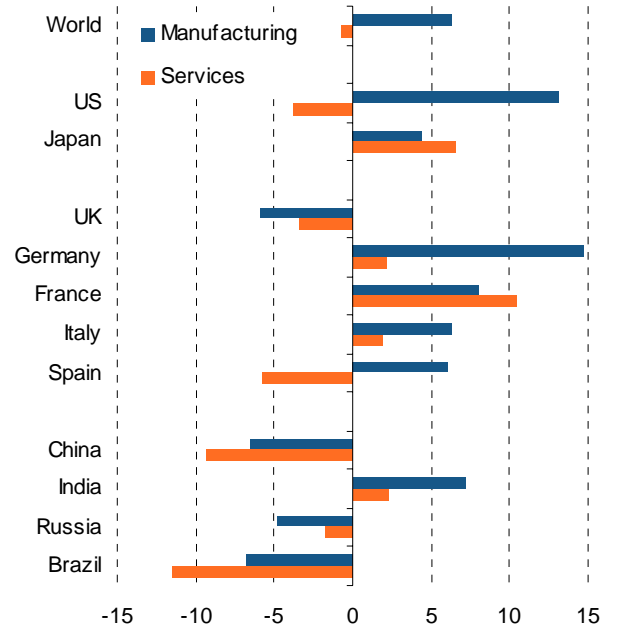


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Source: Markit.

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Source: Markit.

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