

News Release

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Markit Global Business Outlook Survey

Worldwide business confidence wanes

- **Global optimism slips from two-year high**
- **Waning confidence centred on eurozone and emerging markets**
- **Investment and employment intentions scaled back from post-crisis highs**
- **Selling price expectations lowest for over four years**

Data collected 12-27 June 2014

Worldwide business optimism has waned compared to the two-year high seen earlier in 2014, according to the latest Markit Global Business Outlook Survey. Expectations about future business activity growth fell slightly, with future hiring and investment intentions deteriorating especially markedly.

The cooling of sentiment in part reflecting the growing reality of policy being tightened in the US and UK, a still weak eurozone recovery and sluggish growth in emerging markets.

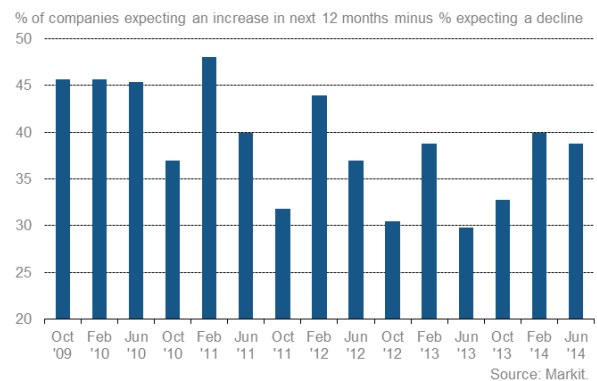
Indicators of expected selling price trends meanwhile also fell sharply, hitting their lowest for over four years, in part because input costs are set to show the smallest rise yet recorded by the survey.

The survey, conducted in June, is based on responses from a panel of 11,000 companies that participate in the worldwide manufacturing and service sector PMI surveys. It is the largest global survey of its kind and has been conducted three times a year since 2009.

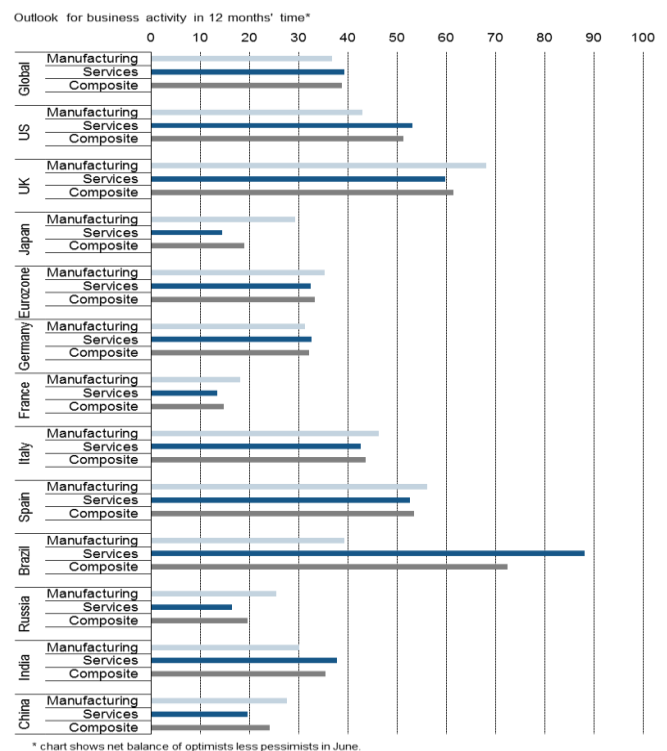
Global overview

The number of companies expecting to see their business activity levels rise in the coming year exceeded those expecting a decline by a robust +39%. However, this was slightly below the net balance of +40% recorded in the previous survey, conducted in February.

Global business activity expectations



Business activity expectations (June 2014)



The survey uses net balances to indicate the degree of future optimism or pessimism. The figure is calculated by deducting the percentage survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage expecting an improvement/increase. These balances vary between -100 and 100. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 indicate pessimism.

Global net balances for expected employment and investment in the coming year dropped to +16% and +12% respectively (down from +21% and +18% respectively in February).

Although down on earlier in the year, expectations of future business activity, employment and investment all remain above the lows seen a year ago.

The number of companies expecting their selling prices to rise over the coming year exceeded those expecting a decline by just +11%, down from +18% in February and the lowest score since February 2010.

These lower selling price expectations to a large extent reflected a weaker expected cost increase over the coming 12 months. The extent to which input prices – including purchases, staff costs and other costs – are expected to rise over the coming year was the lowest seen since the survey began (the net balance fell from +24% in February to +16%).

Upturn in Japan bucks global trend

Not all countries saw a waning of business confidence, however, with **Japan** being a notable exception. Fears that April's sales tax hike would hurt demand and stymie growth had pushed optimism in Japan down at the turn of the year, but June saw confidence about business activity levels lift to its highest since February of last year as these fears proved unfounded in many cases. Employment and investment intentions slipped slightly in Japan, but held close to the post-crisis highs seen earlier in the year.

UK sees highest optimism of 'G4' economies

It was the **UK**, however, which – although seeing confidence fall from February's record high – enjoyed the highest level of business optimism of all major developed economies in terms of expectations about future activity, employment and investment.

US investment and hiring intentions slide lower

Business expectations regarding activity levels for the year ahead were meanwhile unchanged in the **US** compared to earlier in the year, boding well for continued robust economic growth in coming months.

However, indicators of employment and investment intentions fell from the buoyant levels seen earlier in the year to new survey lows, suggesting US companies are focusing on cost control more so than at any time since the financial crisis. Many companies attributed this to uncertainties regarding the cost impact associated with new healthcare reforms.

Optimism wanes in euro 'core', rises in 'periphery'

Optimism about future business activity and hiring in the **eurozone** meanwhile cooled from the three-year peaks seen earlier in the year, but remained high by historical standards. Capex intentions were unchanged, albeit weak compared to other economies.

However, once again there were wide variations across the single currency area. In particular, weakening optimism in the 'core' contrasted with a more upbeat assessment of future prospects in the 'periphery'.

France, which had seen business optimism hit a near three-year high earlier this year, saw confidence about future activity tumble to the lowest for a year, with firms now planning to cut employment and investment in the year ahead.

Optimism also fell sharply in **Germany**, though remained high by standards seen since the recession. Investment intentions also held reassuringly steady at a post-crisis high.

In contrast, business optimism in **Spain** held at the post-crisis high seen earlier in the year, with investment and hiring intentions spiking to new records. Optimism meanwhile hit a three-year high in **Italy**, with employment and investment intentions also rising.

Emerging market optimism at post-crisis low

Across the BRIC economies as a whole, business optimism fell back to the survey lows seen late last year. Expectations of future business activity fell back to match previous post-crisis lows in China and hit a new all-time low in Russia. However, greater optimism was seen in both India and Brazil, the latter registering the highest degree of optimism of all countries surveyed.

Continued ...

Prices and profits:

Expectations of selling prices fell globally to the lowest since early-2010, driven largely by expectations sliding sharply in the **US** to the lowest seen since the survey began. Expectations of future input cost trends also fell sharply, down to the lowest seen over the survey history by a wide margin. US firms were upbeat about profits as a result, though to the least extent seen for a year.

Japanese companies, in contrast, faced with having to import energy post-Fukushima, continue to expect strong growth of input costs in the year ahead, albeit to a slightly lesser extent than the post-crisis high seen in February. Selling price expectations also eased slightly since earlier in the year, but remained high by historical standards. Profits growth in Japan is expected to lag well behind other major developed countries as a result.

UK companies reported the highest expected selling price inflation and input costs increase of all major developed countries, as has been the case since early last year. However, UK firms were also the most upbeat about profits growth.

In the **eurozone**, expectations about future selling prices pulled back from February's near three-year high but remained well above the levels of a year ago. Cost expectations in the region also eased back only slightly from February's two-year high. Selling price expectations eased in both **Germany** and **France**, held steady in Italy and rose to a three-year high in **Spain**. The latter consequently also saw expected profits growth rise to a new high.

Selling price intentions in **China** remained very weak, as input cost expectations fell to an all-time low. The weak inflationary trends signalled for China contrasted with far stronger price expectations in the other BRICs, albeit with selling price expectations easing in **Russia** and **Brazil**.

Comment:

Chris Williamson, Chief Economist at Markit, said:

"The Outlook Survey suggests the global economy is set for reasonable though unexciting growth over the coming year. It's especially disappointing to see investment and employment intentions falling compared to earlier in the year.

"However, the overall picture remains one of recoveries being sustained, which is reassuring given the many threats cited by companies in the survey. These include prospects of tighter monetary policy in the US and UK over the course of the coming year alongside ongoing fiscal restraint, a hesitant eurozone recovery and little sign of growth picking up in emerging markets.

*"The developed world looks set to continue to act as the main driver of growth, while emerging markets, and notably **China**, remain stuck in a much lower gear than seen prior to the financial crisis.*

*"The **UK** is once again the stand-out performer among the world's largest economies, seeing by far the highest levels of business optimism in relation to output, employment, investment and profits. However, optimism has cooled slightly since earlier in the year reflecting numerous worries, including higher interest rates, a strengthening of sterling, uncertainty due to the General Election, an ongoing lack of bank lending, skill shortages and rising staff costs.*

*"The outlook for the **US** remains buoyant but has also cooled since earlier in the year. Employment and investment intentions fell especially sharply. While lower energy prices have helped bring inflation expectations down sharply to new record lows in the US, companies commonly cited uncertainties about the financial impact of healthcare reform. Despite these worries, the survey indicates that the US recovery should continue to build over the coming year.*

*"It's **Japan**, however, where the survey provides particularly welcome reassurance that economic recovery will be sustained. Optimism has rebounded after worries about the impact of the sales tax rises brought a cloud of uncertainty over the business outlook earlier this year. Japanese companies are now the most upbeat since early-2013 and prices are expected to continue rising, suggesting deflation should remain beaten.*

*"In the **eurozone**, an overall dip in confidence masks divergent trends between member states. **France** is the major concern, with companies anticipating renewed cuts in employment and investment. Confidence among **German** companies has also waned, but Germany still looks to be on course for robust economic growth in the coming year. It's **Spain** which is the pick of the larger member states, however, with optimism in relation to output, hiring and investment at post-crisis highs."*

Continued ...

compiled by markit

Key survey findings for major countries:

Eurozone

- Business confidence falls back from three-year high recorded in February
- Manufacturers and service providers both signal weaker optimism regarding activity
- Employment intentions remain positive, but expected rate of jobs growth eases
- Input and output price expectations hit one-year low
- Optimism regarding profits slips from three-year high

US

- Optimism among US companies holds steady in the summer
- Improvement in service providers' expectations offsets fall in manufacturing confidence
- Sentiment regarding future activity remains above global average
- But expected rate of job creation is lowest since start of survey in October 2009, as service providers scale back hiring intentions
- Input and output price expectations drop to series-lows

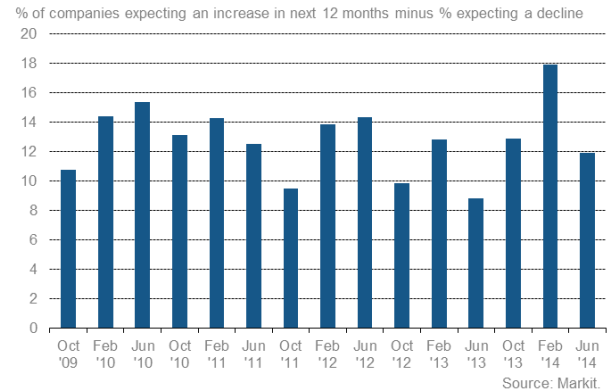
UK

- Sentiment regarding future business activity eases from February's record high but remains strongest among major developed economies
- Manufacturers and service providers both signal upbeat outlook
- Staff hiring intentions remain close to record high
- Solid rise in capex planned, supported by robust profits growth
- Output price expectations ease slightly from survey-peak but remain in excess of global average

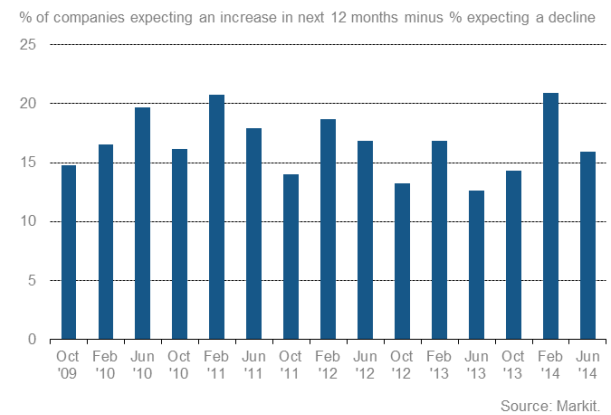
Japan

- Outlook for business activity brightest since February 2013
- Improvement in confidence broad-based across manufacturing and services
- Employment expectations close to series-high seen in previous outlook period
- Price pressures set to remain subdued
- Moderate profits growth anticipated

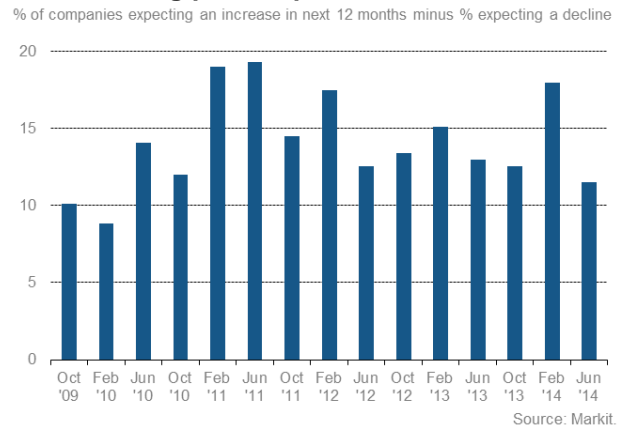
Global capex intentions



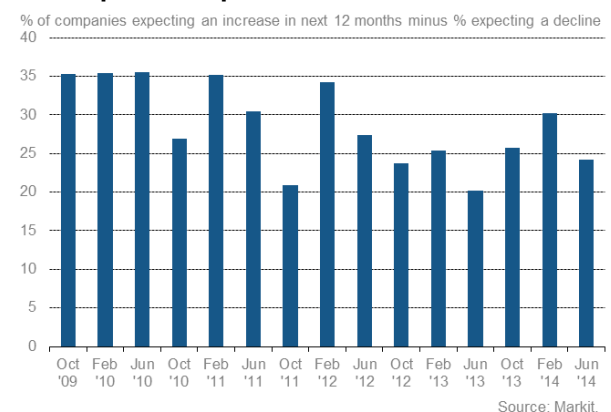
Global employment intentions



Global selling price expectations

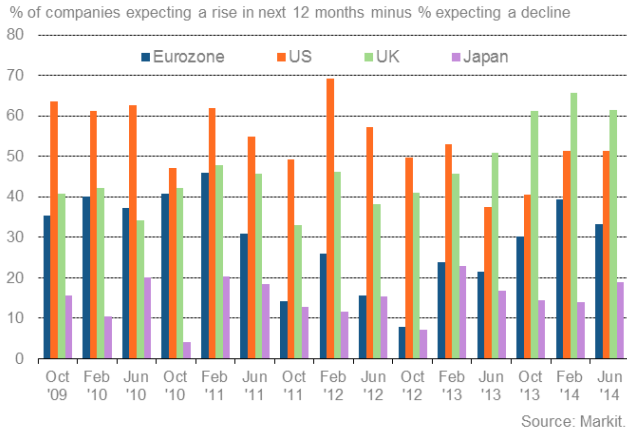


Global profits expectations

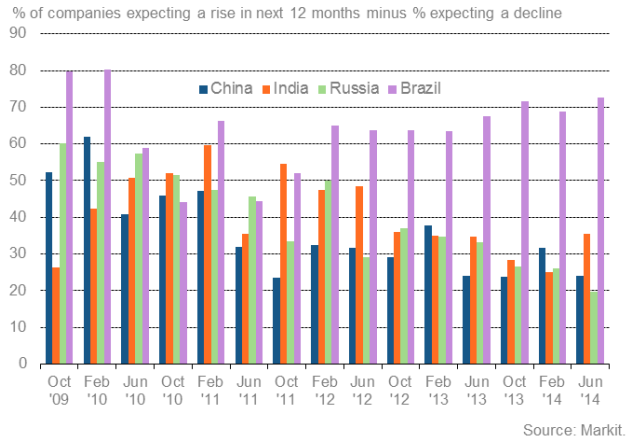


Expectations for the year ahead in key economies

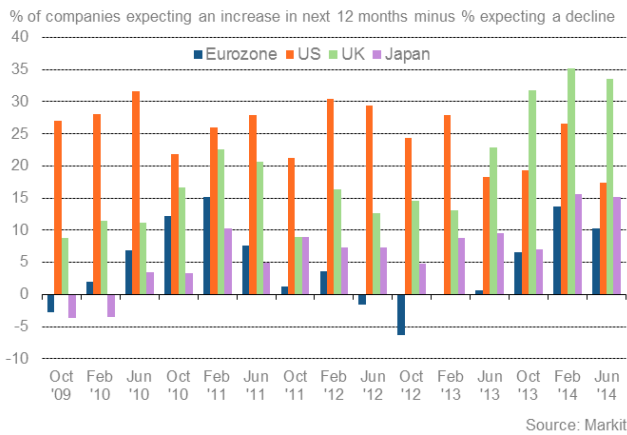
Future business activity in developed economies



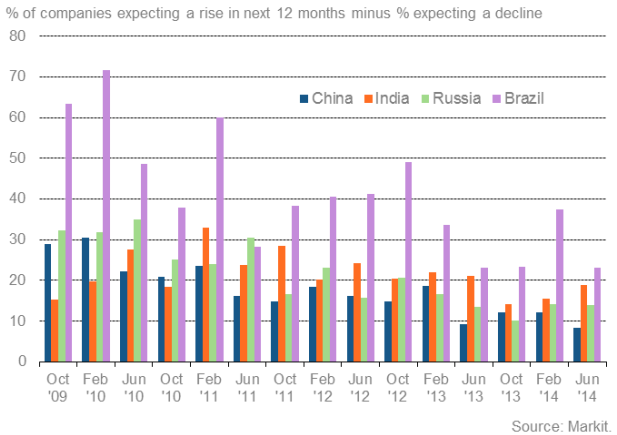
Future business activity in emerging markets



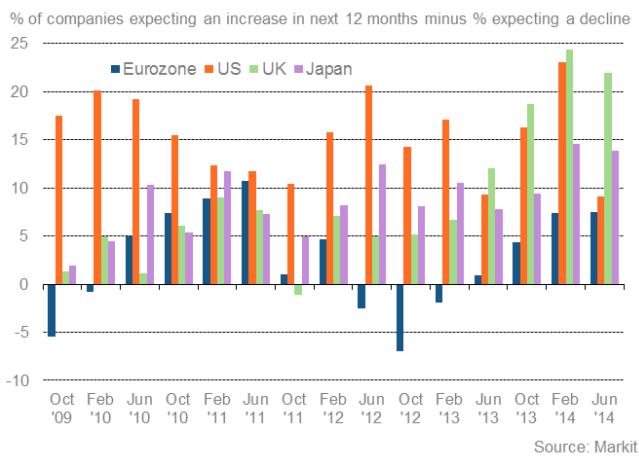
Future employment in developed economies



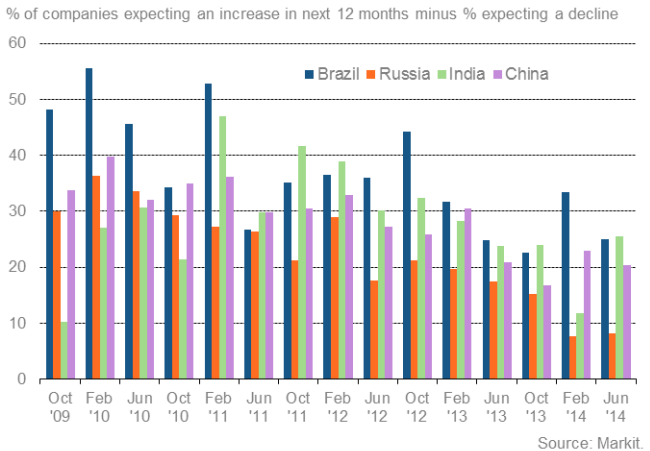
Future employment in emerging markets



Future capex in developed economies



Future capex in emerging markets



-Ends-

Full data available on request from economics@markit.com

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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by Markit Economics and is based on a survey of around 11,000 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 latest survey was conducted between June 12 and 27.

The countries covered by the survey are the US, Japan, Germany, the UK, France, Italy, Spain, Ireland, Austria*, the Netherlands*, Greece*, the Czech Republic*, Poland*, Brazil, Russia, India and China. (*Manufacturing only)

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 Markit Economics 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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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 11,000 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 6,600 firms.

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Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index™ (PMI™) series, which is now available for 32 countries and key regions including the Euro zone and BRIC. The PMIs have become one of the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision-makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

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