Sustained business recovery on the cards as companies look to re-start investment

LONDON, UK: The latest *Global Business Outlook Survey* from KPMG International suggests that businesses are ready to begin investing again as the healthy optimism recorded earlier in the year holds firm. Overall, business optimism remains static but strong, with India and China leading the way; while UK and Spain are still less confident.

Optimism around employment, capital expenditure and R&D expenditure is slowly increasing, raising hopes for a sustainable recovery across many key markets.

The survey, compiled by research firm Markit on behalf of KPMG International, works on a net balance basis, with the percentage of respondents feeling more pessimistic about their company's outlook in 12 months' time deducted from the percentage feeling more optimistic about the future.

Across most of the key indicators such as business activity, revenues, new orders and profits, there was negligible difference from the previous survey in March. Business activity optimism was static at +49.9 for the manufacturing sector and +43.9 for the service sector. Optimism around revenues saw a small increase of two or three points at +45 and +40.7 for manufacturing and services respectively.

Real interest on the investment front

Against this predominantly static background, the real interest comes on the investment front. Indicators in this area had typically lagged the others by 30 points or more but are now closing the gap. Optimism around increased employment in manufacturing rose six points to +20.9, with the service sector also up two points to +19.3. Manufacturers also felt more confident about increasing capital expenditure (up six points to +21.7) and R&D expenditure (up two to +20.8); all of which points to more businesses believing the recovery to be sustainable and feeling more secure in making investment decisions.

Commenting on the latest survey findings, Alan Buckle, global head of Advisory at KPMG, said: "In overall terms, business confidence hasn't significantly changed from four months ago. However, start to dig deeper and some clear trends appear. The emerging and developing market success story continues. Businesses in all of the BRIC economies remain confident, almost always out-performing the global average. It seems that governments are creating an environment which inspires confidence; managing growth while keeping a careful eye on inflation."

"In the West, there are some signs of confidence slowly taking root - in the US, Germany, France and Ireland for example. It is particularly encouraging that businesses now appear ready to invest. There is an increased expectation of higher employment and capital investment in many countries, suggesting that many businesses are ready to put their cash reserves to good use, taking the baton from governments who are keen to unwind stimulus packages. This all adds up to a growing feeling of a quality upturn; the sort of upturn which was hinted at in the previous Outlook survey but which needed further evidence of sustained confidence, increased investment and improved employment prospects before it felt convincing."

A number of stories...

On a country level, the latest survey reveals a number of different stories to be told. In the US, confidence remains resolutely strong with optimism around manufacturing employment now up to +40. In India, there have been 15 to 20 point gains on some indicators as it closes the gap on the super-confident Brazilian and Russians. In Europe, it has been the turn of the UK and Spain to suffer as their service-led economies evidently struggle to come to terms with the impact of government austerity measures and sovereign debt issues respectively. In fact, across the board, responses from the service sector are somewhat more muted compared to manufacturing as concerns around government spending and consumer confidence continue to bite.

Sadly - but unsurprisingly - the biggest loss in business confidence has been registered in Greece with figures as low as -40 or -50 now recorded against key manufacturing indicators.

China also recorded lower optimism figures, albeit from a much high starting point. Falls of as much as 20 points do not tell the whole story here though as this can be directly attributed to firm government action to rein in its own booming economy and head off fears around inflation. Chinese businesses would simply appear to be reacting accordingly.

Alan Buckle continued: "While not providing us with any dramatic swings in the headline confidence numbers, the latest survey nevertheless provides some comfort that recent reports of weakening activity will prove temporary. Almost inevitably though, some doubts remain. While confidence in the West is strong in manufacturing - helped by global demand and, in some cases, falling currency - confidence in the service sectors is weakening and this could be a significant drag on countries such as Spain and the UK which have a small manufacturing base."

About the survey

The *Global Business Outlook Survey* for worldwide Manufacturing and Services is produced by Markit on behalf of KPMG 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 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 KPMG's *Global 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.

Methodology

The methodology of the KPMG *Global Business Outlook Survey* is identical in all countries that Markit operates. This methodology seeks to ensure harmonisation 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 KPMG *Global 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 6200 firms.