

# Manufacturing outlook

## Optimism builds among European and emerging market manufacturers

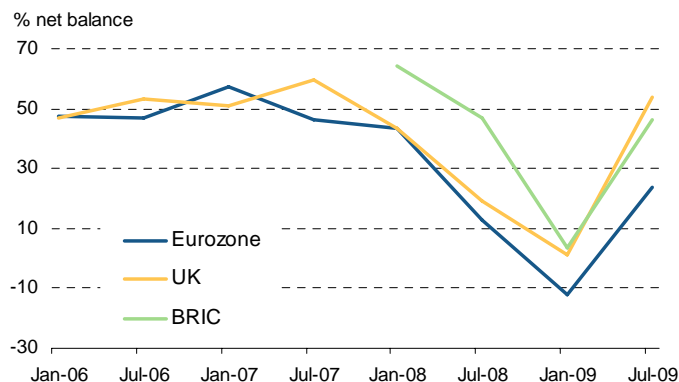
The summer 2009 KPMG Business Outlook Survey, compiled by Markit, is based on data from 3,700 manufacturing companies in the European Union and a further 1,800 companies based in the BRIC countries (Brazil, Russia, India and China). The survey uses the same carefully compiled, representative panels that contribute to the monthly PMI surveys.

The survey found a near-universal upturn in confidence about incoming orders in the coming year, which manufacturers expect to drive business activity and capacity utilisation rates higher. However, the extent to which this will feed through to higher employment and capital expenditure varied greatly by country, in part reflecting different views on profits and price trends over the next 12 months.

### Business activity

Asked about their expected business activity levels in 12 months' time, optimism bounced back sharply from the January survey's lows in all 15 countries. UK manufacturers were more upbeat than the averages seen across the BRIC and Eurozone economies, with the Eurozone lagging in confidence. In fact the only country surveyed to be more optimistic about business activity in the year ahead was Brazil. The least optimistic was the Czech Republic (where the number of pessimists continued to exceed optimists, and which also saw the steepest drop in confidence earlier this year).

**Chart 1: Business activity 12 months ahead**



The UK was also notable in that optimism has recovered to a level not seen since the summer 2007 survey, whereas in most Eurozone countries optimism has not even regained January 2008 levels. In Germany, optimism remained even lower than a year ago, though has bounced sharply since the start of the year. The exception in the Eurozone was Italy, where optimism was the highest since January 2007.

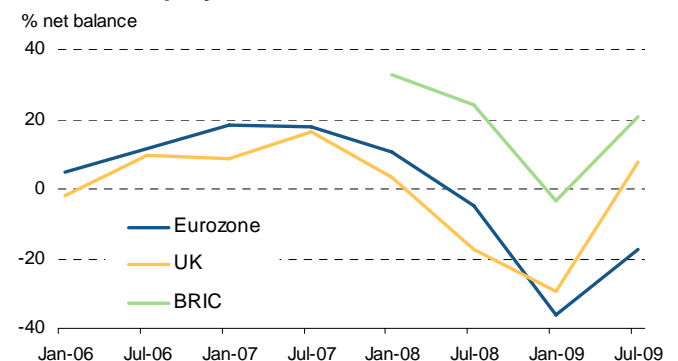
Optimism about business activity in the BRIC economy as a whole recovered to a level just below that seen last July, with Brazil the most buoyant and India the least optimistic.

It is also reassuring to see that expectations about employment, capital expenditure (and R&D spend) also generally picked up in the July survey compared to the lows seen at the start of the year. However, in most cases, the rebounds were more muted than the expected gains in business activity anticipated for the coming year.

### Employment

Eurozone manufacturers also lagged behind their UK and BRIC counterparts in respect of anticipated employment in 12 months' time. Within the Eurozone, all nations reported that manufacturing staffing levels were expected to fall further over the coming year, contrasting with expected increases in the UK and all four BRIC nations. France is set to see the steepest fall in employment of all countries surveyed.

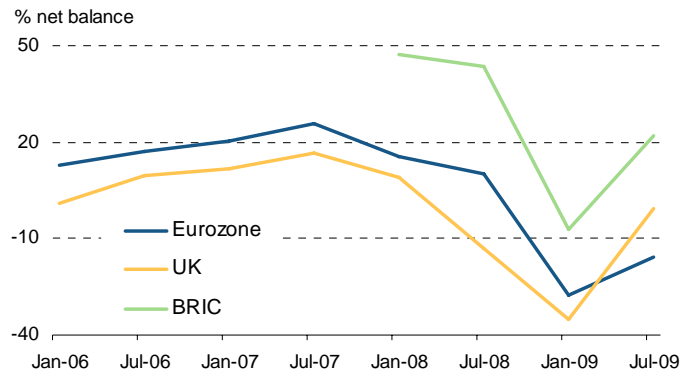
**Chart 2: Employment 12 months ahead**



### Capex

In relation to capital expenditures, strong negative net balances continued to be seen in the Eurozone countries of Germany, France, the Netherlands, Ireland and Austria, as well as in the Eastern European countries of Poland and the Czech Republic.

**Chart 3: Capital Expenditure 12 months ahead**



In contrast, UK, Italian and Spanish manufacturers reported that the number of companies expecting to increase their capex over the coming year was broadly the same as the number expecting a decline, representing a considerable improvement on the strongly negative readings seen in January.

Capex is set to rise at the strongest rate in the BRIC countries, however, with all four BRIC nations reporting that the number of companies expecting to raise capex exceeded those expecting a decline, led by Brazil.

### Profits

Both employment and capex trends were closely correlated with national divergences in profit expectations. In Europe, UK manufacturers were the most optimistic about profits growth in the year ahead, with expectations far exceeding the Eurozone average. Among the euro area's four largest member states, Italian manufacturers were the most upbeat about profits, followed by German firms. Profits were expected to continue falling, however, in both France and Spain.

All four BRIC countries anticipate a rise in manufacturing profits in the coming year, led by Brazil and then China.

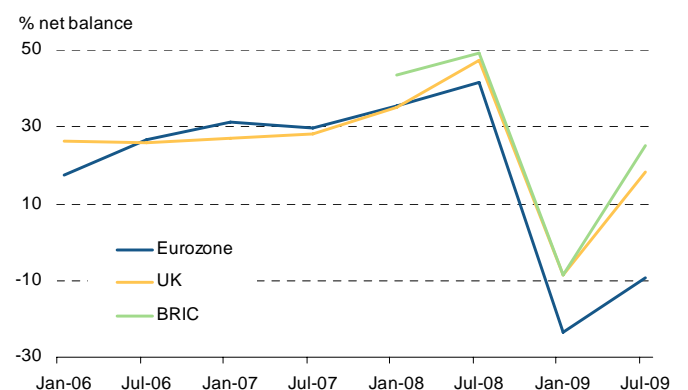
### Prices

Profits trends were in turn largely explained by national differences in expected cost pressures and pricing power.

Input price inflation is generally expected to rise over the coming year, in contrast to the general expectation of falling price pressures seen in the January survey, although national divergences were striking. Positive net balances (whereby the number of companies expecting an increase in input price inflation over the coming year exceeded those expecting a decrease) were recorded in the UK, Italy, France, Spain, Greece, Poland and the BRIC countries, though to sharply varying degrees. However, negative net balances – suggesting that input price pressures are expected to weaken over the coming year – were recorded in Germany, Austria, the Czech Republic and – to a marginal degree – the Netherlands.

National divergences were even more evident for output prices. In particular, an expectation of rising output price pressures over the coming year in the UK and BRIC countries contrasted with an expected decline for the Eurozone as a whole and the two Eastern European countries included in the survey. Within the Eurozone, only Italian manufacturers expect to be able to see an increase in selling price inflation in the next 12 months.

**Chart 4: Output prices 12 months ahead**

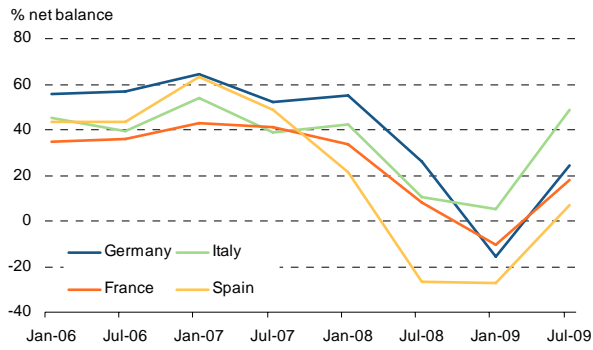


The Outlook survey covers additional variables to those discussed above. For further commentary on the survey please see our press releases at:

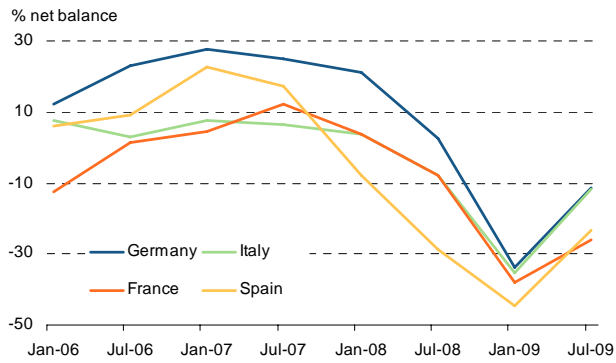
<http://www.markiteconomics.com/MarkitFiles/Pages/PressCenter.aspx>

## Eurozone

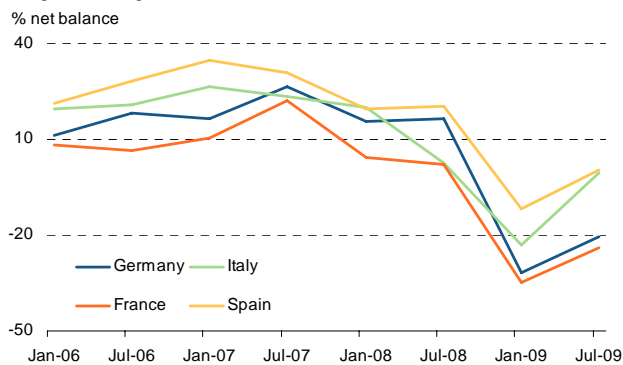
### Business activity 12 months ahead



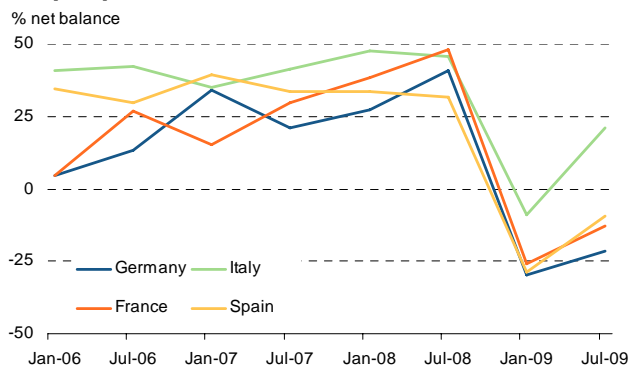
### Employment 12 months ahead



### Capital Expenditure 12 months ahead

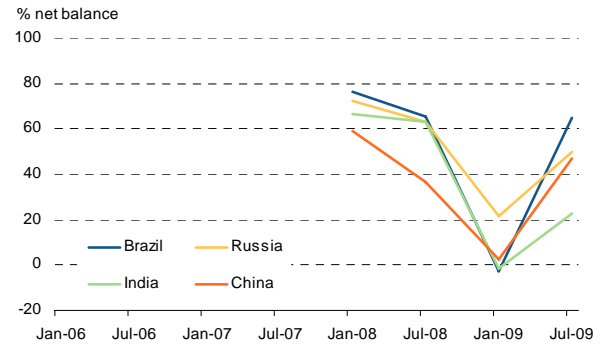


### Output prices 12 months ahead

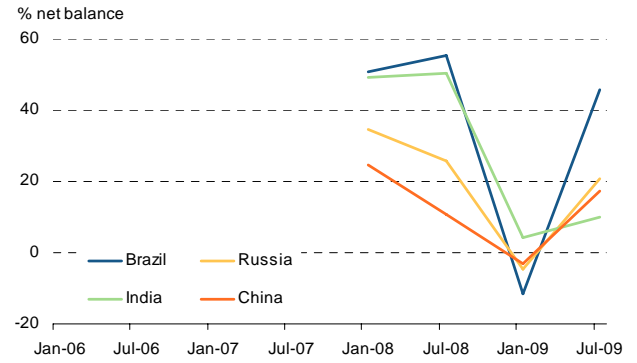


## BRIC

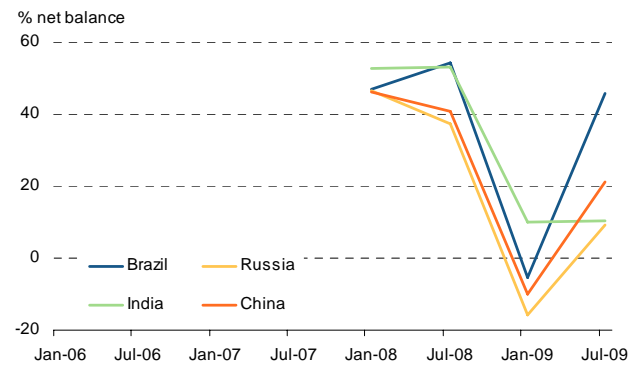
### Business activity 12 months ahead



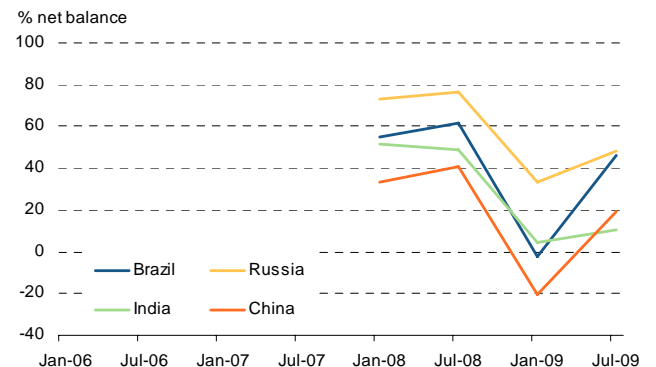
### Employment 12 months ahead



### Capital Expenditure 12 months ahead



### Output prices 12 months ahead



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