

Business Outlook

Sentiment improves among service providers in EU and BRIC

Key findings

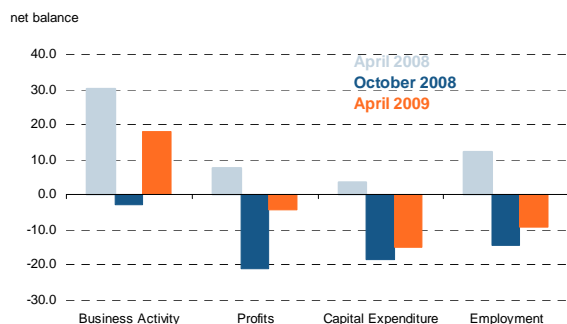
- Confidence rises among EU and BRIC service providers.
- But employment, capex and profits are all expected to fall in the EU over the next year.
- Inflationary pressures over the next twelve months expected to be subdued.

The latest business outlook survey, conducted by Markit on behalf of KPMG, found business sentiment among service providers in the European Union and BRIC countries to have improved compared to the lows seen last winter. However, confidence generally remained below levels seen before the global financial turmoil of the second half of 2008.

EU services outlook improves

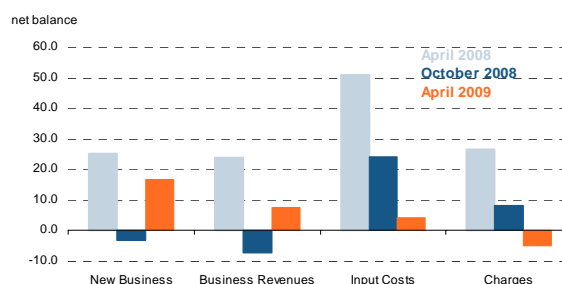
Service providers in the European Union expect business activity to be higher in twelve months' time on average. This represents a marked improvement on October 2008's survey, when activity was expected to fall over the coming year. Expectations of profitability in twelve months time also improved, as did predictions for capital expenditure and employment (although the average forecast is merely for profits, capex and employment to fall less than expected in the previous outlook).

Chart 1: EU net balances



While both the new business and business revenues net balances (those expecting an increase less those expecting a decrease) improved in April, revenues are expected to rise more slowly than orders. This contrasts with the trends seen before the financial crisis, when revenues and new business recorded similar net balances. The change can be partly attributed to the expectation of prices charged for services falling over the next year, as firms attempt to stimulate lacklustre demand via discounts. Expected price pressures for the coming year are consequently substantially lower than they were last autumn.

Chart 2: EU net balances



BRIC service providers more optimistic

Sentiment among BRIC service providers likewise improved in April on average, with the outlook much more positive than in the EU. The percentage net balances for business activity, new business and profits were all markedly higher than six months previously, although still short of the levels registered one year ago. The outlook for business revenues, capital expenditure and employment also improved.

Chart 3: BRIC net balances

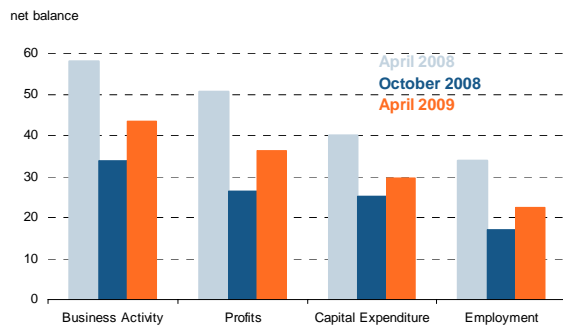
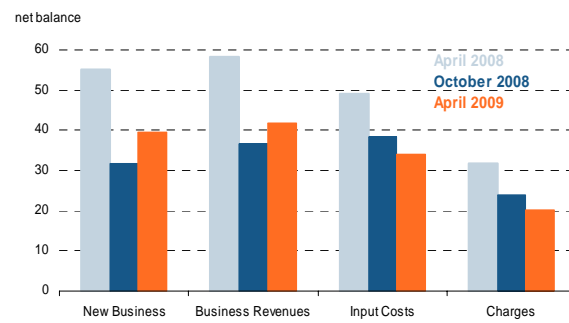


Chart 4: BRIC net balances



Expectations surrounding input price and output price inflation in the BRIC countries also continued to moderate in April. Service providers have seen a gradual easing in inflationary pressures throughout the history of the BRIC services outlook survey (which began in October 2007) as global demand has softened.

Overall, the latest surveys indicate that the worst of the global economic downturn may have passed, with BRIC nations are expected to lead the recovery, while inflationary pressures remain subdued. That said, the signs of recovery remain tentative, particularly in the EU.

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