

KPMG pan-European survey produced by NTC Economics

# Business Outlook Survey



The Business Outlook Survey is produced by NTC Economics and sponsored by KPMG LLP. The report features original survey data which provide internationally comparable information on business expectations for the year ahead in the main European economies. The survey is conducted four times each year, covering manufacturing in January and July and services in April and October.

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## Outlook for EU service sector worsens over concerns for global economy and rising costs.

### Key points from latest services outlook survey:

- Optimism regarding future EU service sector business activity, revenues, new business, profits, employment, capital spending and outsourcing all drop to the lowest levels yet recorded by the survey (data first collected in April 2006).
- Spain and Ireland see steepest falls in confidence and lowest absolute levels, while optimism was generally strongest in France.
- Inflation expectations for costs rise to a new two-year survey high (+50.9), reflecting concerns over increasing commodity prices and also expectations of higher staff costs.
- Charges also set to rise at accelerating rate (+26.4), but profits growth forecast to slow (+7.6 from +14.7 last October).
- Deteriorating domestic and international economic conditions, rising input costs and the continued fall out from the credit crisis are expected to pose the biggest threats to future revenue streams.
- Growth of investment in capital (+3.7 from +13.3 last October) and employment (+12.2 from +19.0) set to slow over coming 12 months as service providers brace themselves for tougher trading conditions.
- Predictions for outsourcing over coming year fall to new survey low of just +2.7, from a peak of +14.1 a year ago.

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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.

# 1 Executive summary

**The latest Business Outlook survey indicated a further deterioration in business confidence amongst EU service providers, with many balances hitting new survey lows.**

## Service sector business confidence continues retreat from levels seen a year earlier...

Optimism at EU service providers with regard to the outlook for their sector over the coming 12 months dropped further in April, as confidence in future business activity, revenues, new business, profits, employment and capital expenditure sank to new survey lows (the EU Business Outlook Survey for services started in April 2006).

Although still in positive territory, the headline Business Activity net balance fell to +30.2 from +35.0 last October, while expectations for business revenues dropped to +23.8 (down almost 20 points from last April's series high) reflecting heightened concerns over the international economic outlook and the continued fall-out from the global credit crunch.

## ...led by particular weakness in Spain and Ireland

The latest survey – based on responses from a panel of around 2,800 private sector service providers – indicated that confidence with regard to future business activity dropped most steeply at Irish service providers (down to +23.2 from +48.1 last October) while Spain registered the lowest overall degree of optimism with a net balance of just +15.4. In both cases, the end of prolonged property market bubbles has severely undermined confidence in the wider economy.

Although down on last October, confidence held up much better in France and Italy, while Germany saw a modest firming in sentiment.

## Rapid cost inflation forecast for 2008/09...

EU service providers forecast further rapid inflation of their input costs over the coming twelve months, reflecting the rising cost of wide range of key commodities and also expectations of increasing labour costs. The net balance of +50.9 was up slightly from +50.5 last October and a new survey high. Output charges are set to rise in response, but at a much more subdued rate (net balance of +26.4).

## ...to place further strain on profits

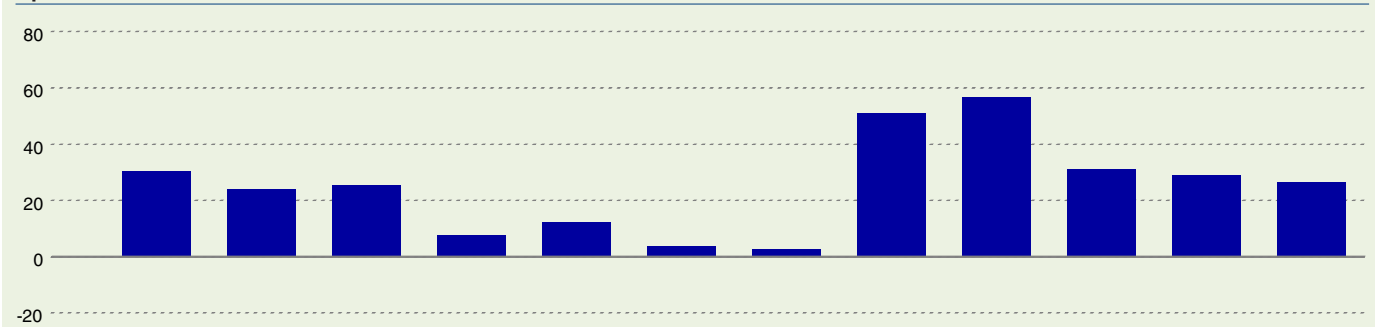
With a much higher proportion (57%) of survey respondents predicting an increase in the pace of cost inflation than forecast a rise in output charge inflation (36%), optimism with regard to EU service sector profits deteriorated further in April. The net balance of just +7.6 firms expecting an improvement in their profits over the coming year was down from +14.7 last October and the lowest in the survey history. Spanish firms were most concerned with regard to the outlook for profits, with a net balance of -20.6 predicting a decline (the only nation to forecast a fall in profits over the next 12 months).

## Expectations for employment and capital spending revised down again

With the outlook for activity, revenues and new business less certain and profits growth set to be restrained by rising costs, EU service providers revised down their forecasts for future growth of employment and capital spending. The employment net balance dropped to +12.2 from +19.0 and capital spending to just +3.7 from +13.3 – meaning both variables registered new series lows. Optimism with regard to future hiring declined across all countries covered, with Spanish firms the least confident (-0.7). Irish firms were most pessimistic with regard to future capital spending (-8.2), followed by the UK (-4.1).

### Total EU – Summary of key findings

	Business activity	Business revenues	New business	Profits	Employment	Capital spending	Out-sourcing	Input costs (total)	Staff costs	Outsourced service costs	Other costs	Prices charged
Apr '07	+46.6	+43.7	+43.1	+25.2	+27.0	+18.4	+14.1	+45.3	+56.0	+27.1	+29.5	+27.4
Oct '07	+35.0	+31.6	+33.2	+14.7	+19.0	+13.3	+8.2	+50.5	+57.5	+34.7	+32.8	+29.3
Apr '08	+30.2	+23.8	+25.2	+7.6	+12.2	+3.7	+2.7	+50.9	+56.5	+31.2	+28.8	+26.4



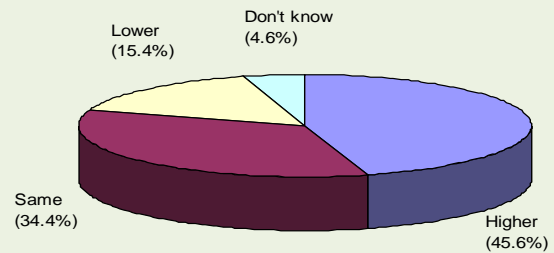
The Business Outlook Survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and +100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst 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.

# 2 Business activity (volume of work)

- EU service companies' optimism for business activity in twelve months' time declined in April to its lowest level since the survey began in April 2006.
- The net balance fell from +35.0 in October 2007 to +30.2 in April 2008.
- With the exception of Germany, which registered an increase from +28.6 to +33.3, confidence fell across all surveyed countries. Spain showed the steepest fall as confidence plummeted from +28.9 to +15.4.
- Four of the six sectors covered reported a decline in optimism, with the drop in Post & Telecomms especially striking (from a net balance of +37.7 to +5.2).

### Total EU

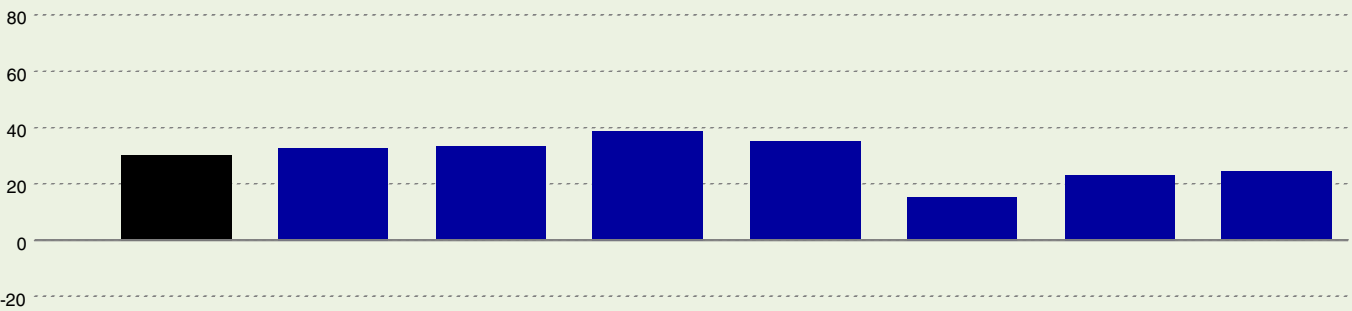
Q. Please state whether you expect your business activity levels (volume of work) to be higher, the same or lower in twelve months' time compared to current levels.



### By country / area

% net balances

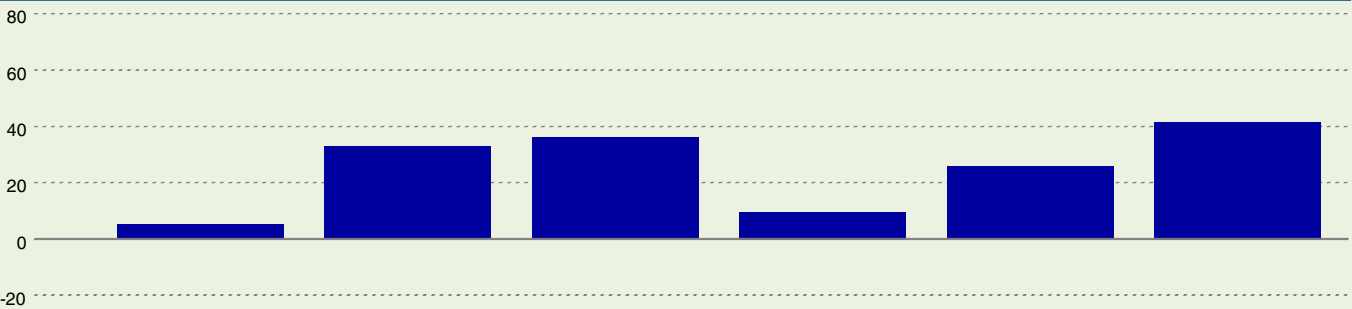
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+46.6	+45.8	+45.2	+44.0	+48.5	+45.7	+53.9	+48.5
Oct '07	+35.0	+34.8	+28.6	+42.0	+37.3	+28.9	+48.1	+35.6
Apr '08	+30.2	+32.6	+33.3	+38.7	+35.1	+15.4	+23.2	+24.3



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+66.7	+54.4	+46.3	+27.1	+47.7	+52.1
Oct '07	+37.7	+44.5	+35.8	+16.9	+36.3	+39.3
Apr '08	+5.2	+32.8	+36.0	+9.7	+26.0	+41.6

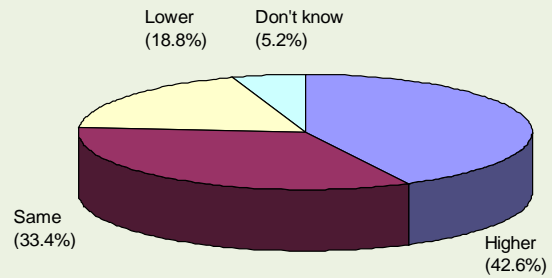


# 3 Business revenues (value of work)

- Optimism with regard to future business revenues declined in April to the lowest level since data were first collected in April 2006.
- A net balance of +23.8 service providers expect the value of their work to rise over the next twelve months, down from +31.6 last October.
- With the exception of Germany, where optimism increased moderately in April, all nations saw declines in their confidence toward future revenues.
- Ireland and Spain posted the largest falls, with net balances sinking to +18.0 and +9.6 respectively. Of the sectors covered, Hotels & Restaurants were the least optimistic about future revenues (+1.7).

### Total EU

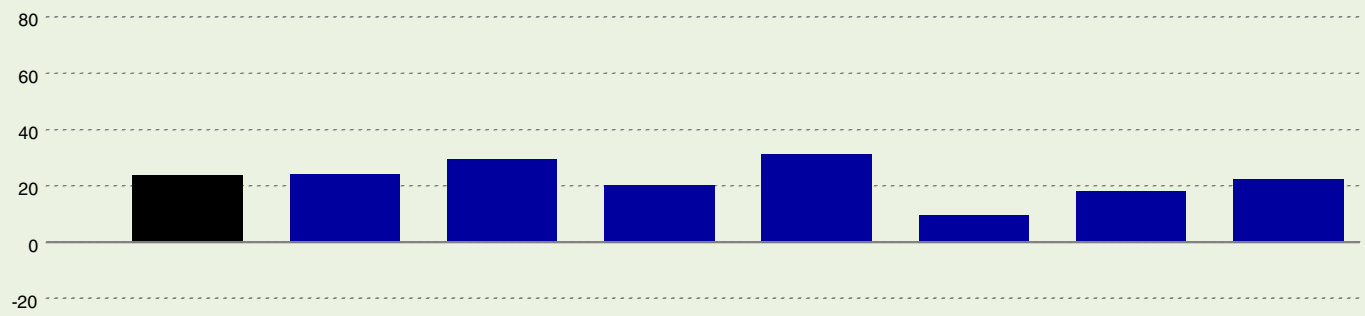
Q. Please state whether you expect your business revenues (value of work) to be higher, the same or lower in twelve months' time compared to current levels.



### By country / area

% net balances

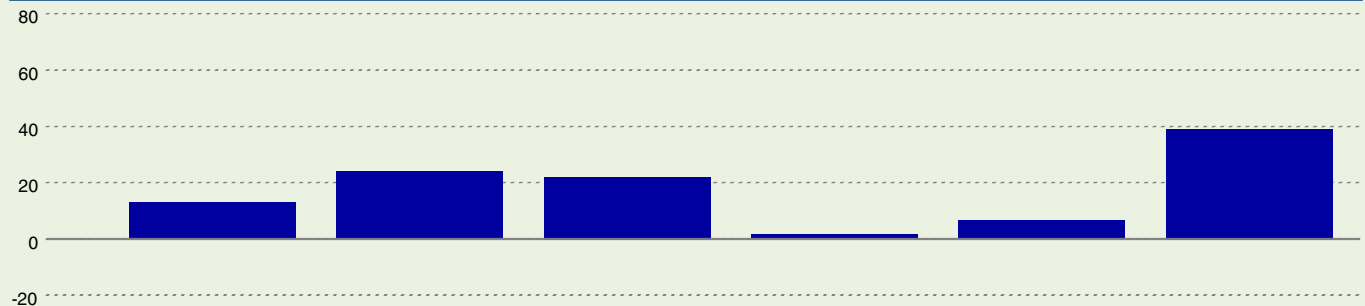
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+43.7	+41.5	+38.0	+32.0	+50.0	+55.6	+53.1	+48.8
Oct '07	+31.6	+30.5	+22.8	+31.3	+34.3	+39.4	+48.5	+34.4
Apr '08	+23.8	+24.3	+29.4	+20.4	+31.3	+9.6	+18.0	+22.6



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+66.7	+48.6	+35.1	+37.2	+36.8	+52.7
Oct '07	+51.8	+36.5	+29.0	+17.6	+15.5	+28.1
Apr '08	+12.9	+24.1	+22.1	+1.7	+6.6	+39.2



# 4 Business revenues (value of work)

- Prospects for business revenues were again closely linked to the outlook for the EU and global economies and also to the financial crisis.
- Around 21% of EU respondents cited improving domestic economic conditions as the predominant factor likely to boost business revenues over the next 12 months.
- Conversely, 22.8% of companies identified a deterioration in the economic climate as the variable most likely to negatively impact on future business revenues.
- The widespread effects of the credit crunch and rising input costs (in particular energy, labour and transport costs) were also cited as major threats to revenues.

## Total EU

Q. Please state the main factors likely to generate growth of business revenues for your company over the coming year?

### Top 3 factors expected to boost revenues:

	EU %*	EZ %*
Improving economic/market situation (domestic)	20.7	19.7
Improving economic/market situation (internat.)	12.3	14.0
New clients/new orders	11.6	12.4

Q. Please state the main factors likely to cause a decline in business revenues for your company over the coming year?

### Top 3 factors expected to reduce revenues:

	EU %*	EZ %*
Deteriorating economic/market situation	22.8	21.6
Increased input costs	14.4	15.8
Financial market turmoil/tighter liquidity	14.2	13.1

\* Refers to percentage of respondents (see note at bottom of page)

## Factors expected to BOOST business revenues: by country / area

% of respondents*	Improving economic/market situation (domestic)	Improving economic/market situation (international)	New clients/new orders	Political factors <sup>1</sup>	New products/new markets	Lower input costs	Marketing activity	Investment (facilities/capital expenditure)	Higher sales prices	Internal/company specific	Other <sup>2</sup>
<b>EU</b>	<b>20.7</b>	<b>12.3</b>	<b>11.6</b>	<b>9.9</b>	<b>8.8</b>	<b>6.6</b>	<b>5.7</b>	<b>5.1</b>	<b>4.9</b>	<b>3.7</b>	<b>10.9</b>
<b>EZ</b>	<b>19.7</b>	<b>14.0</b>	<b>12.4</b>	<b>10.0</b>	<b>8.7</b>	<b>7.0</b>	<b>4.2</b>	<b>5.1</b>	<b>6.0</b>	<b>3.2</b>	<b>9.7</b>
Germany	16.2	12.0	6.8	14.5	10.3	4.3	5.1	6.8	6.8	2.6	14.5
France	18.5	11.1	14.8	9.3	9.3	3.7	5.6	5.6	11.1	5.6	5.6
Italy	27.7	13.8	16.0	5.3	8.5	12.8	2.1	3.2	1.1	1.1	8.5
Spain	17.5	27.0	15.9	7.9	3.2	11.1	1.6	3.2	1.6	3.2	7.9
Ireland	23.4	9.0	12.6	5.4	13.5	9.9	9.0	4.5	0.9	1.8	9.9
UK	23.0	8.0	9.7	9.7	8.8	5.8	9.3	4.9	2.2	4.9	13.7

<sup>1</sup> Includes improvements to legislation/regulations etc. as well as increased public sector spending.

<sup>2</sup> Includes mergers & acquisitions, and increased turnover/activity.

## Factors expected to REDUCE business revenues: by country / area

% of respondents*	Deteriorating economic/market situation	Increased input costs	Financial market turmoil/tighter liquidity	Lower sales/reduced demand	Competition	Political factors/reduced public spending	Unfavourable exchange rates	Internal/company specific problems <sup>1</sup>	Higher interest rates	Taxes	Other <sup>2</sup>
<b>EU</b>	<b>22.8</b>	<b>14.4</b>	<b>14.2</b>	<b>12.6</b>	<b>10.8</b>	<b>5.9</b>	<b>4.7</b>	<b>4.0</b>	<b>2.9</b>	<b>2.3</b>	<b>5.3</b>
<b>EZ</b>	<b>21.6</b>	<b>15.8</b>	<b>13.1</b>	<b>12.1</b>	<b>11.6</b>	<b>5.6</b>	<b>4.8</b>	<b>4.4</b>	<b>3.3</b>	<b>2.1</b>	<b>5.5</b>
Germany	16.0	20.6	10.7	9.9	12.2	4.6	3.8	3.1	6.9	6.1	6.1
France	20.0	20.0	6.7	13.3	15.0	3.3	6.7	8.3	0.0	0.0	6.7
Italy	28.9	7.2	14.5	15.7	7.2	10.8	6.0	2.4	2.4	0.0	4.8
Spain	26.1	8.7	30.4	10.1	10.1	4.3	1.4	2.9	2.9	0.0	2.9
Ireland	31.2	11.2	16.8	6.4	10.4	5.6	4.8	3.2	3.2	2.4	4.8
UK	25.7	11.2	16.8	13.8	9.0	6.7	4.5	3.0	1.9	2.6	4.9

<sup>1</sup> Includes difficulties in recruiting suitably qualified staff; weaker investment spending;

<sup>2</sup> Includes concerns over international terrorism/geopolitical tensions; concerns regarding industrial disputes/social unrest.

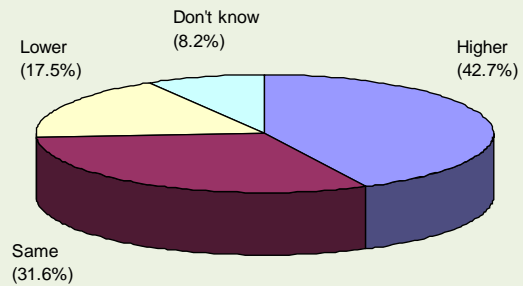
\* The factors listed in the tables above represent the summation of information provided to NTC Economics by respondents to an open question. Please note that more than one factor was frequently cited by individual companies. The figures listed in the tables represent the percentage of survey respondents citing each factor.

# 5 New Business (volume of work)

- Confidence in future levels of incoming new business to the service industry fell further from the high recorded in April 2007 (+43.1). At +25.2, optimism hit its lowest level in over two years.
- Every country in the survey reported reduced confidence in April. Spain and Ireland exhibited the weakest levels of optimism with net balances of +3.7 and +15.9 respectively.
- Positive sentiment towards new order levels in twelve months' time also sank in each surveyed industry. The Hotels & Restaurants and Post & Telecomms sectors registered the lowest degrees of confidence.

### Total EU

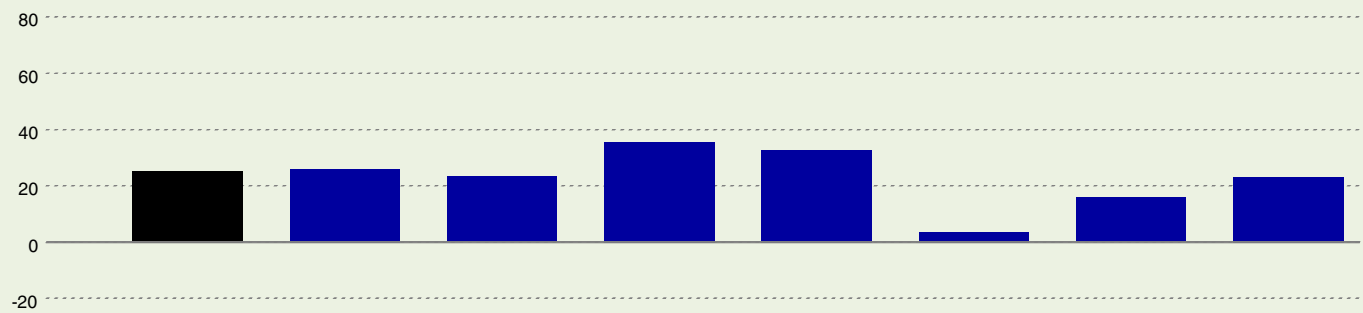
Q. Please state whether you expect your volume of incoming new business (units) to be higher, the same or lower in twelve months' time compared to current levels.



### By country / area

% net balances

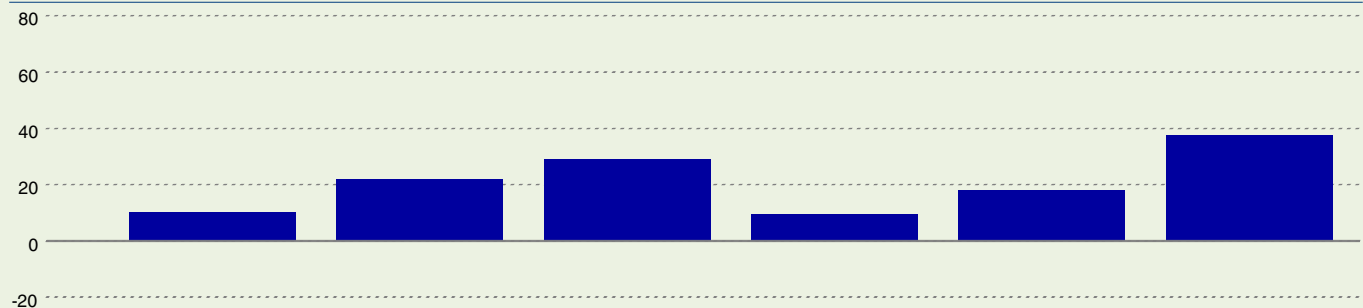
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+43.1	+40.2	+36.1	+40.0	+45.5	+40.7	+49.0	+50.3
Oct '07	+33.2	+33.3	+25.4	+40.2	+39.6	+27.5	+38.9	+33.1
<b>Apr '08</b>	<b>+25.2</b>	<b>+26.1</b>	<b>+23.4</b>	<b>+35.5</b>	<b>+32.8</b>	<b>+3.7</b>	<b>+15.9</b>	<b>+23.2</b>



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+70.7	+43.9	+43.8	+28.4	+42.9	+48.7
Oct '07	+32.9	+45.7	+31.3	+12.9	+30.7	+38.8
<b>Apr '08</b>	<b>+10.0</b>	<b>+21.9</b>	<b>+29.1</b>	<b>+9.5</b>	<b>+17.9</b>	<b>+37.5</b>

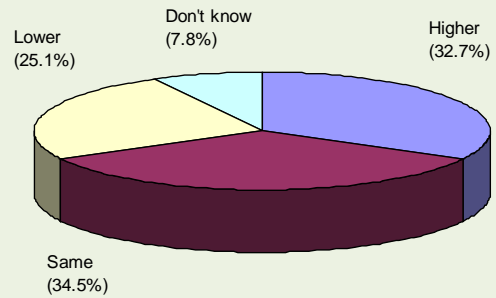


# 6 Profits

- Service providers still expect profits to rise over the next twelve months, but their confidence dropped significantly compared with that posted last year.
- Down from +14.7, the net balance registered +7.6 in April – an indication that optimism in the region towards future profits almost halved.
- Confidence in Spain plummeted to -20.6 from +2.8 last October. Ireland, Italy, the UK and France also experienced large falls in confidence. Only Germany posted an increase from -1.3 to +6.0 in April.
- Forecasted profits contracted in three of the six sectors, most notably in Hotels & Restaurants which registered -16.2.

### Total EU

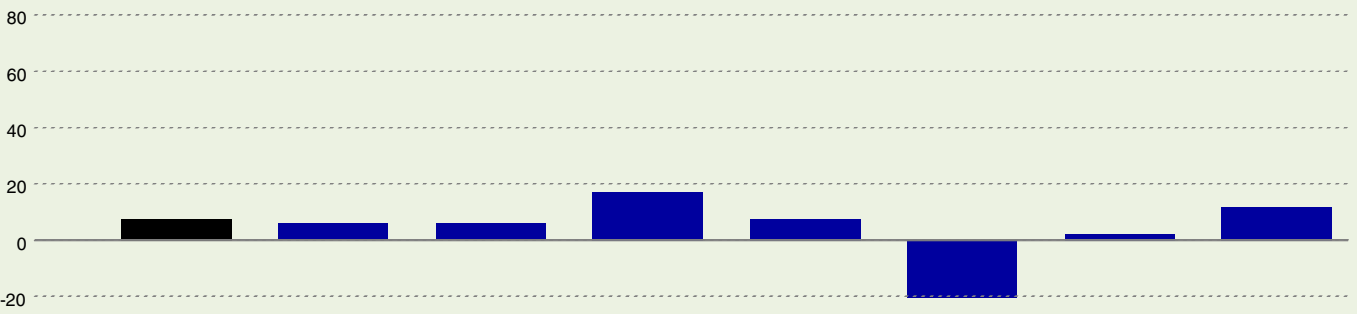
Q. Please state whether you expect profits at your company to be higher, the same or lower in twelve months' time compared to the current level.



### By country / area

% net balances

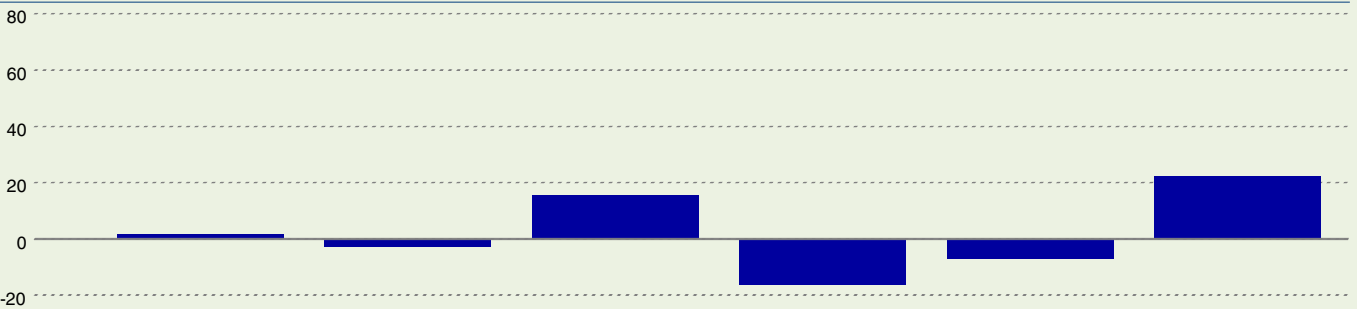
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+25.2	+19.8	+15.3	+16.0	+33.6	+13.6	+41.6	+38.3
Oct '07	+14.7	+11.0	-1.3	+23.2	+17.2	+2.8	+31.0	+23.7
Apr '08	+7.6	+5.9	+6.0	+17.2	+7.6	-20.6	+2.1	+11.7



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+36.8	+28.5	+27.0	+15.1	+13.1	+33.7
Oct '07	+21.2	+19.2	+17.9	+2.5	-2.1	+23.4
Apr '08	+1.7	-2.6	+15.5	-16.2	-7.1	+22.2

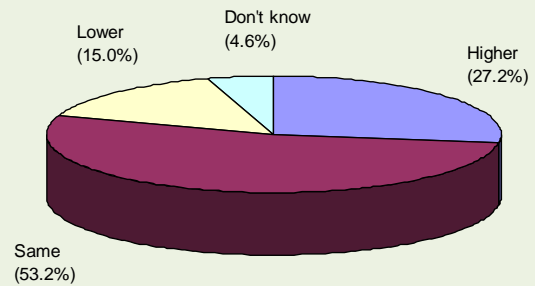


# 7 Employment

- EU service providers forecast a moderate increase in employment over the course of the coming year, although fewer companies held this view than they did in October.
- Overall optimism fell back from the previous reading of +19.0 to +12.2.
- Confidence declined across all countries. It remained strongest in France at +23.7, and contracted in Spain (-0.7). Both Ireland and the UK posted very weak readings of +1.3 and +8.8 respectively.
- Hotels & Restaurants was the only sector to predict an outright contraction in their staff numbers. That said, three of the other six sectors also displayed low confidence levels.

## Total EU

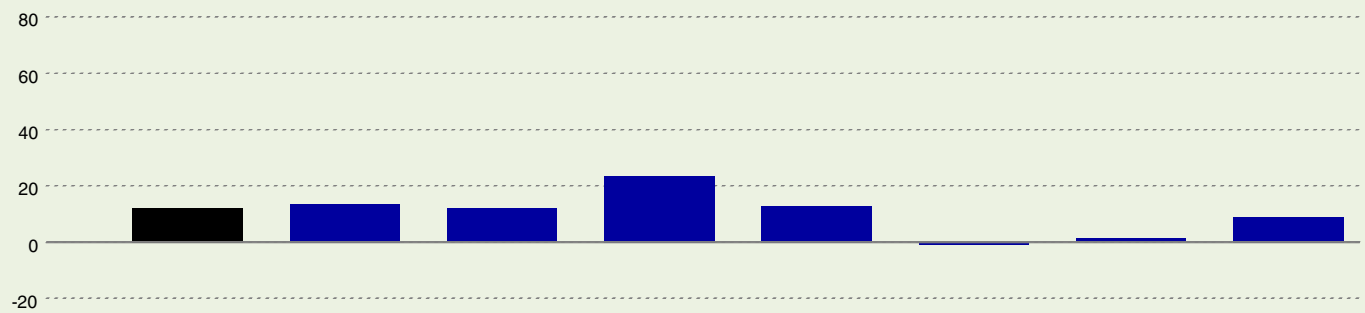
Q. Please state whether you expect the overall level of employment at your company to be higher, the same or lower in twelve months' time compared with the current level.



### By country / area

% net balances

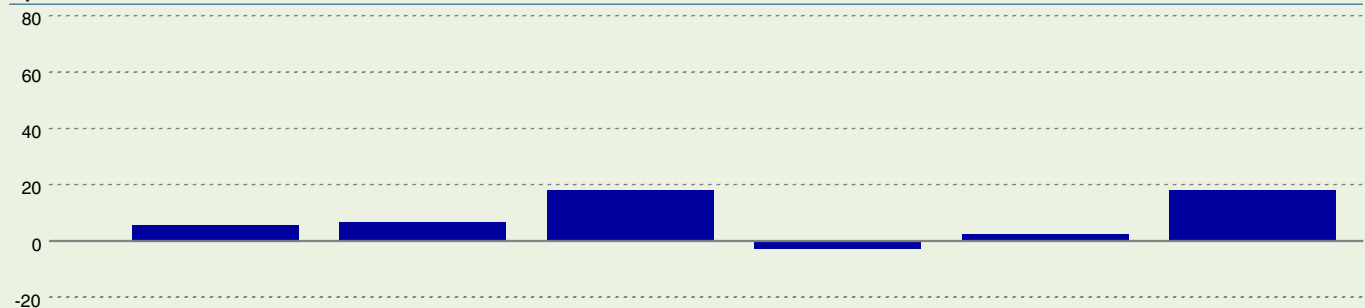
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+27.0	+25.5	+23.1	+29.0	+18.7	+34.0	+32.7	+30.4
Oct '07	+19.0	+19.6	+13.8	+26.8	+17.2	+21.8	+26.8	+17.4
Apr '08	+12.2	+13.6	+11.9	+23.7	+13.0	-0.7	+1.3	+8.8



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+47.0	+29.9	+30.1	+3.7	+19.4	+25.9
Oct '07	+32.8	+23.0	+22.5	+2.4	+12.8	+14.8
Apr '08	+5.6	+6.6	+17.9	-2.6	+2.4	+18.0

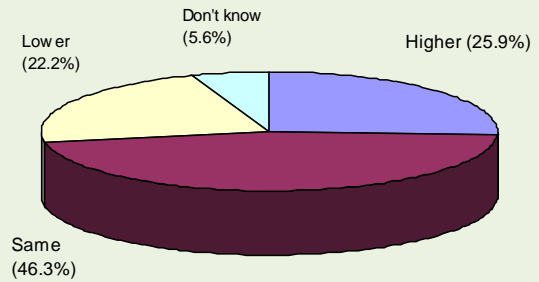


# 8 Capital Spending

- Confidence amongst EU service providers with regard to their capital expenditure in 2008/2009 dropped sharply compared with last October. The net balance slumped to just +3.7, from +13.3, the greatest fall in confidence since the survey began in April 2006.
- German optimism for future levels of capital expenditure recovered slightly in April from +0.4 to +4.5, but all other nations reported weaker confidence.
- Spain indicated a mild contraction of -0.7, while confidence in Ireland and the UK contracted more significantly to -8.2 and -4.1 respectively.
- Two of the six sectors showed contractions.

### Total EU

Q. Please state whether you expect the value of capital spending by your company (measured in 'real' terms) to be higher, the same or lower in twelve months' time compared to the current level.



### By country / area

% net balances

	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+18.4	+19.0	+9.7	+21.0	+26.1	+27.2	+18.4	+16.9
Oct '07	+13.3	+15.6	+0.4	+19.6	+27.6	+27.5	+12.1	+7.6
Apr '08	+3.7	+6.9	+4.5	+11.8	+10.7	-0.7	-8.2	-4.1

### By sector

% net balances

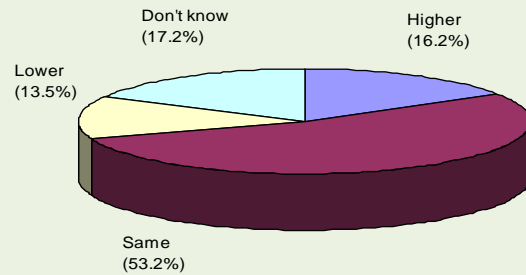
	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+30.6	+26.8	+13.2	+24.4	+20.4	+17.8
Oct '07	+12.5	+29.3	+10.3	+15.4	-3.3	+18.4
Apr '08	+18.2	+16.8	+5.0	-19.1	-10.1	+1.2

# 9 Outsourcing

- The latest survey revealed a further fall in the proportion of companies expecting to increase the value of their outsourced work over the next twelve months.
- French firms were the most confident of a rise in the value of their outsourced business activities whilst their German counterparts forecast the steepest decline.
- Positive sentiment amongst the different sectors was universally low in April, with the most optimistic (Post & Telecomms) posting +4.9 and the least optimistic (Financial Intermediation) posting +0.8.

### Total EU

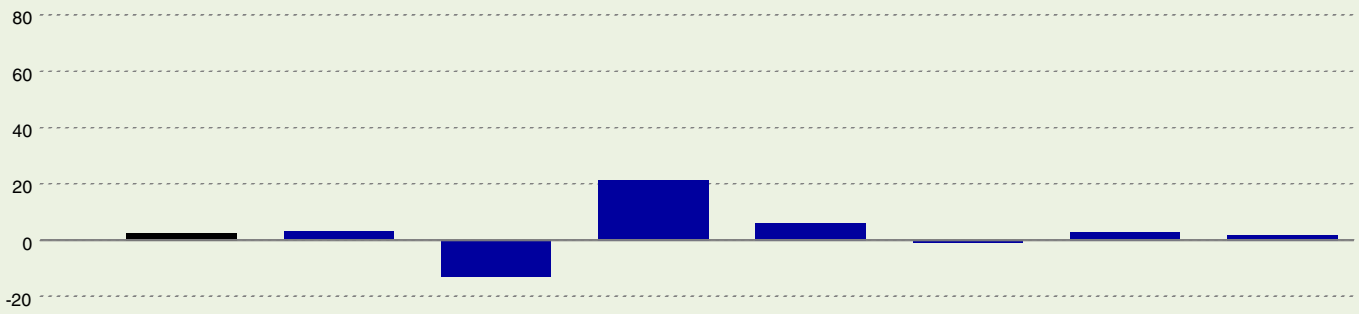
Q. Please state whether you expect the value of outsourcing of business activities by your company (measured in 'real' terms) to be higher, the same or lower in twelve months' time compared with the current level.



### By country / area

% net balances

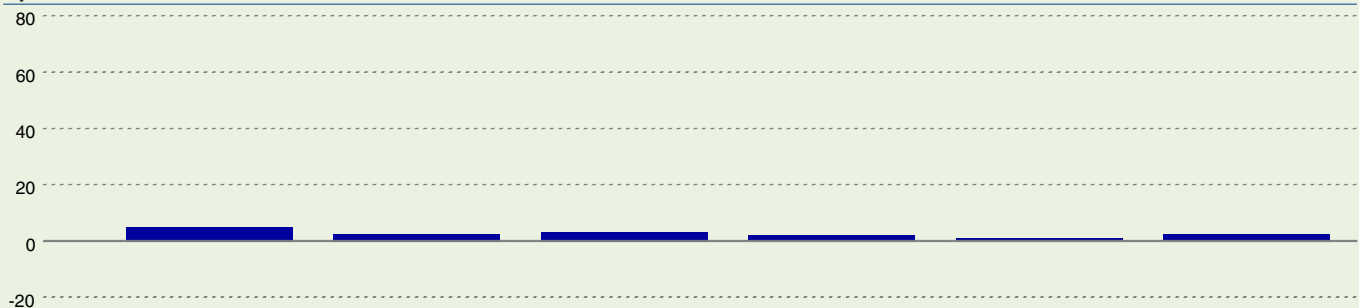
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+14.1	+14.7	-0.5	+23.0	+28.4	+14.8	+8.2	+12.7
Oct '07	+8.2	+9.4	-6.7	+18.8	+20.1	+13.4	+6.7	+5.4
Apr '08	+2.7	+3.0	-12.9	+21.5	+6.1	-0.7	+3.0	+1.8



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+18.2	+20.0	+13.7	+12.8	+7.6	+3.7
Oct '07	+3.4	+15.0	+6.6	+5.9	+6.4	+9.3
Apr '08	+4.9	+2.6	+3.3	+2.0	+0.8	+2.4

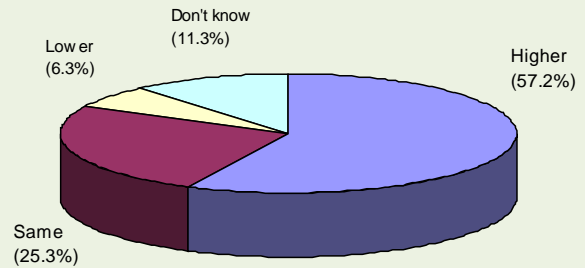


# 10 Input costs (total)

- EU service providers expect annual input price inflation to head higher over the next twelve months.
- A net balance of +50.9 indicates that EU services companies are firmly confident that their input cost inflation will increase. This is up from October's figure of +50.5.
- Survey data suggest that Italian service firms are the most convinced that input costs will go up at a faster pace. However, all countries posted high readings.
- Hotels & Restaurants were the most unanimous in their expectation of rising cost inflation (+71.0), whereas the Financial Intermediation sector was the least certain of accelerating costs (+21.8).

### Total EU

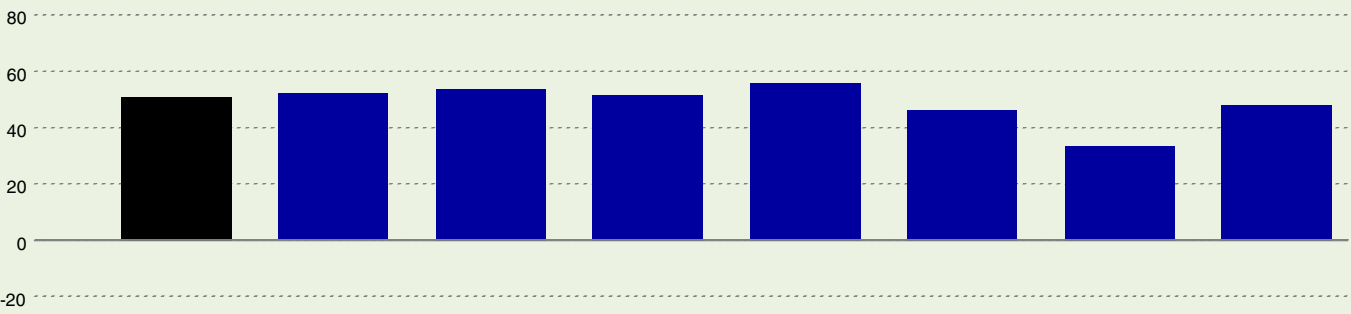
Q. Please state whether you expect the annual rate of growth of average input prices paid by your company to be higher, the same or lower in twelve months' time compared with the current rate.



### By country / area

% net balances

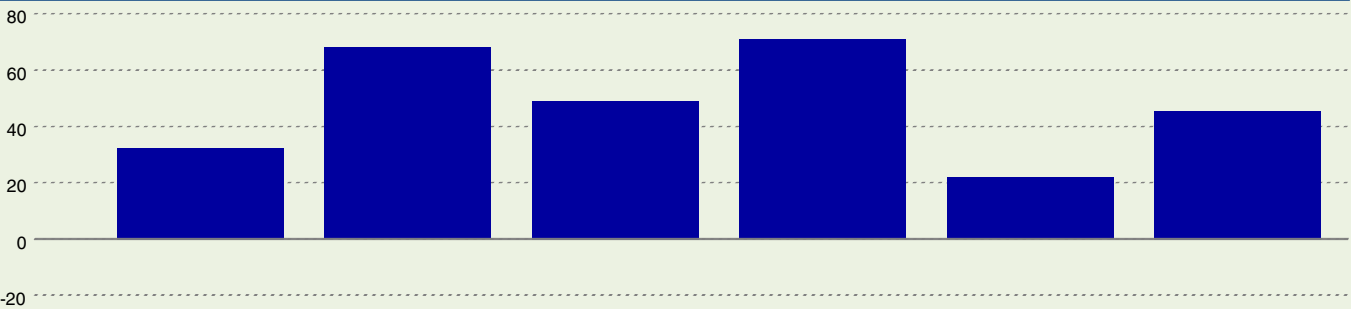
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+45.3	+45.8	+48.1	+40.0	+45.5	+51.2	+54.7	+44.0
Oct '07	+50.5	+54.2	+52.2	+52.7	+60.4	+53.5	+46.4	+41.6
Apr '08	<b>+50.9</b>	<b>+52.1</b>	<b>+53.7</b>	<b>+51.6</b>	<b>+55.7</b>	<b>+46.3</b>	<b>+33.5</b>	<b>+48.1</b>



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+23.4	+50.8	+42.1	+44.5	+44.4	+51.7
Oct '07	+33.4	+61.0	+47.4	+60.3	+42.4	+55.7
Apr '08	<b>+32.4</b>	<b>+68.1</b>	<b>+49.1</b>	<b>+71.0</b>	<b>+21.8</b>	<b>+45.5</b>

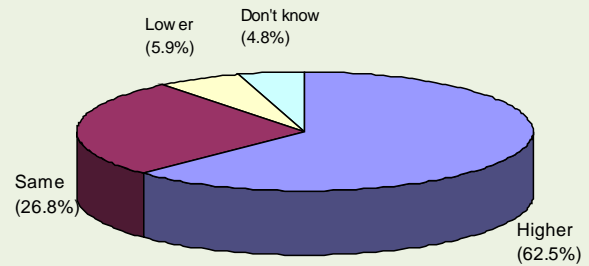


# 11 Input costs (staff costs)

- EU service providers forecast a strong increase in inflation of staff costs over the coming year.
- A net balance of +56.5 service providers expect their staff costs to rise, down only slightly from last October's series high of +57.5.
- Italy and France predict the sharpest increases in staff costs.
- The Hotels & Restaurants sector forecast the sharpest rise in staff cost inflation with a reading of +73.7, although this was down slightly from October's high of +76.1.

### Total EU

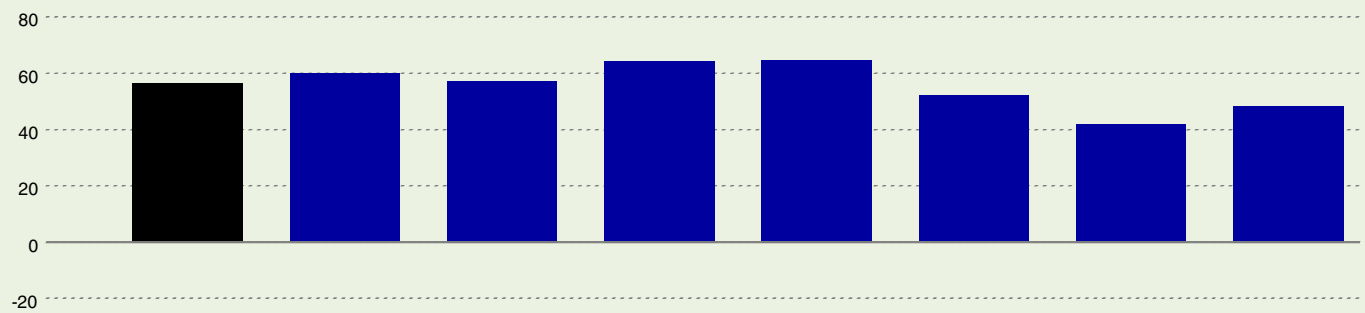
Q. Please state whether you expect the annual rate of growth of average staff costs faced by your company to be higher, the same or lower in twelve months' time compared with the current rate.



### By country / area

% net balances

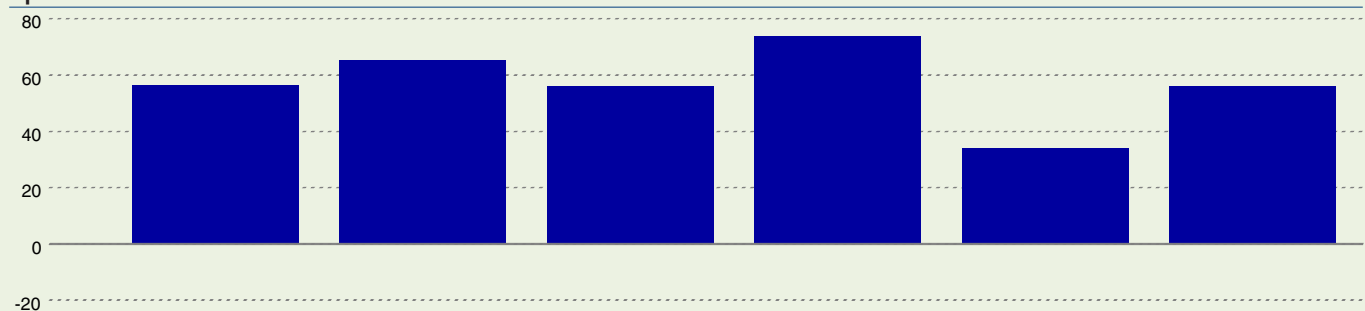
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+56.0	+55.6	+50.5	+57.0	+57.5	+60.5	+67.3	+56.9
Oct '07	+57.5	+59.7	+54.0	+52.7	+79.1	+57.7	+62.8	+52.1
<b>Apr '08</b>	<b>+56.5</b>	<b>+59.9</b>	<b>+57.2</b>	<b>+64.5</b>	<b>+64.9</b>	<b>+52.2</b>	<b>+42.1</b>	<b>+48.4</b>



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+41.2	+58.9	+55.6	+49.8	+57.3	+56.7
Oct '07	+56.1	+61.5	+52.9	+76.1	+49.6	+75.2
<b>Apr '08</b>	<b>+56.4</b>	<b>+65.3</b>	<b>+55.9</b>	<b>+73.7</b>	<b>+34.0</b>	<b>+56.1</b>

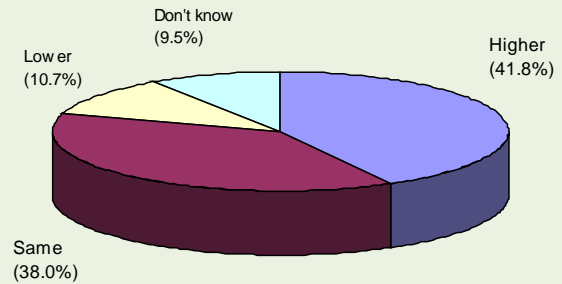


# 12 Input costs (bought-in / outsourced services )

- EU service providers expect faster annual inflation of outsourced service costs over the next twelve months. However, the net balance fell to +31.2 from October's high of +34.7.
- On balance, +45.8 Italian services firms forecast a rise in the annual rate of inflation of their outsourced service costs, against a net balance of just +14.6 for Ireland.
- Hotels & Restaurants (+54.3) were by far the most unanimous in expecting a rise in the pace of increase of their outsourced service costs over the next twelve months.

### Total EU

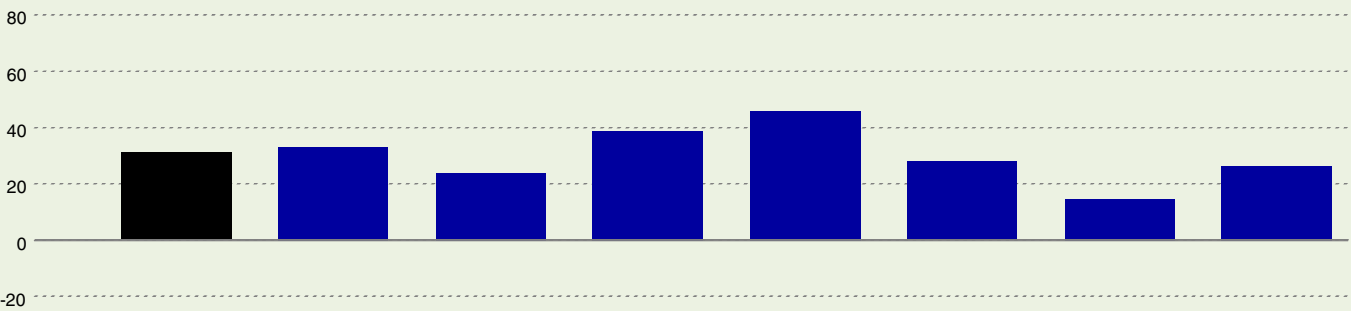
Q. Please state whether you expect the annual rate of growth of average prices paid for bought-in/outsourced services by your company to be higher, the same or lower in twelve months' time compared with the current rate.



### By country / area

% net balances

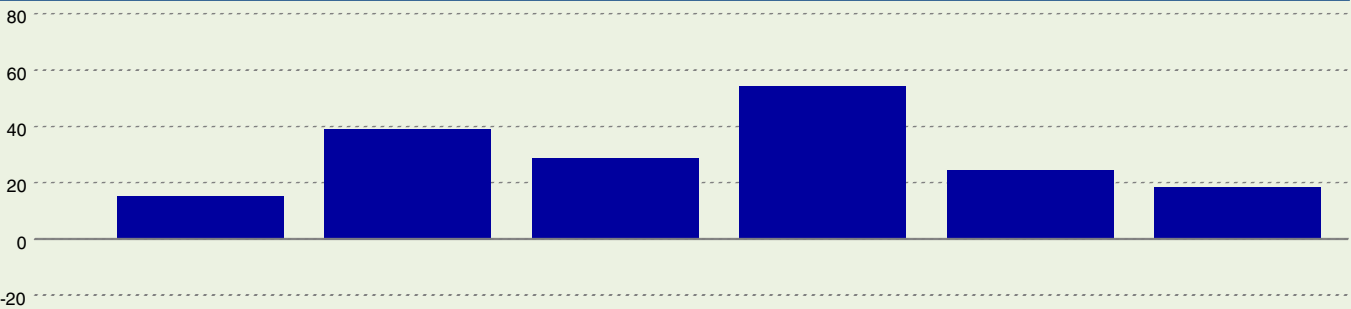
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+27.1	+28.0	+18.1	+24.0	+46.3	+33.3	+26.5	+24.7
Oct '07	+34.7	+39.3	+31.7	+36.6	+58.2	+35.9	+28.5	+23.7
Apr '08	+31.2	+33.2	+23.9	+38.7	+45.8	+27.9	+14.6	+26.4



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+21.3	+36.1	+27.0	+19.0	+12.6	+31.2
Oct '07	+17.7	+43.3	+29.2	+52.1	+26.6	+50.8
Apr '08	+15.2	+39.1	+28.7	+54.3	+24.4	+18.3

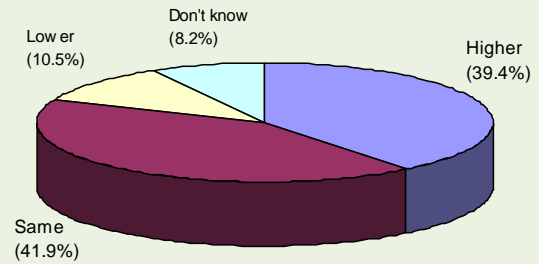


# 13 Input costs (all other)

- Annual inflation of all other non-staff costs is forecast to accelerate over the proceeding twelve months in the EU service sector.
- A net balance of +28.8 companies predict higher annual growth of non-staff costs, down only moderately from the series high in October of +32.8.
- At +41.9, the net balance of French services firms predicting an increase in non-staff cost inflation was by far the highest of all the countries surveyed. Ireland gave the lowest reading of +18.9.
- Again, Hotels & Restaurants were the most confident of a rise in non-staff costs, closely followed by Transport & Storage firms.

### Total EU

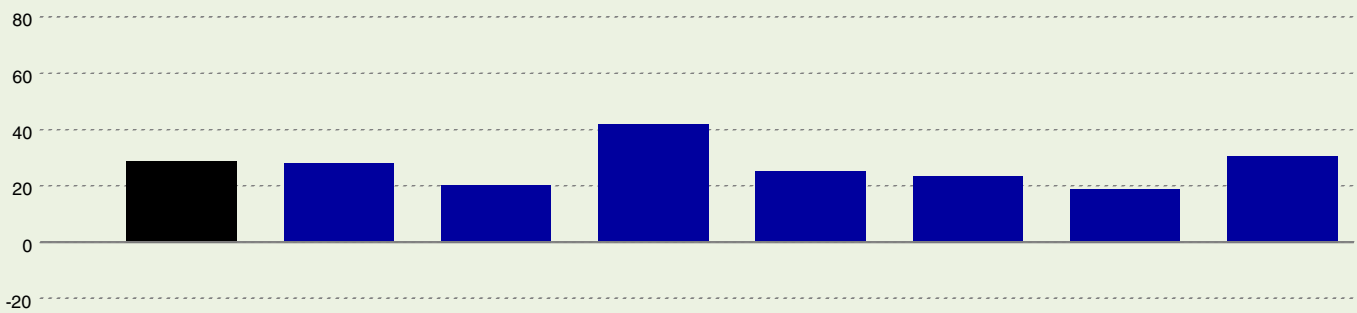
Q. Please state whether you expect the annual rate of growth of all other non-staff costs faced by your company to be higher, the same or lower in twelve months' time compared with the current rate.



### By country / area

% net balances

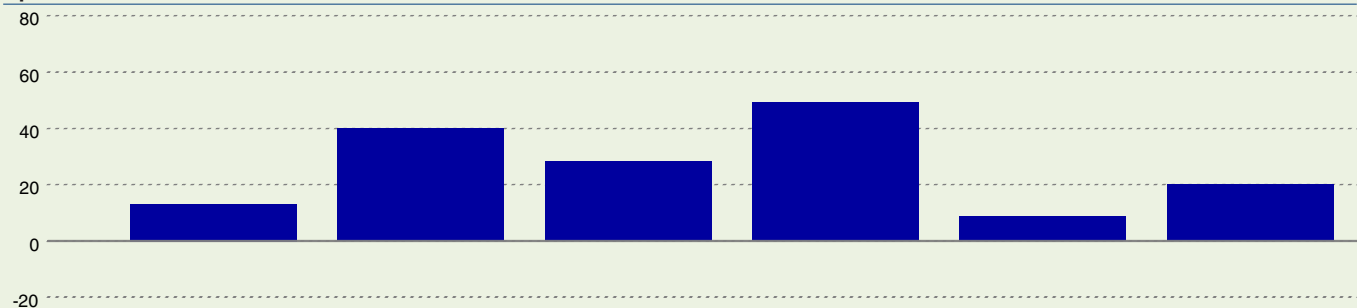
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+29.5	+28.4	+22.2	+24.0	+34.3	+42.0	+41.6	+32.2
Oct '07	+32.8	+34.9	+30.8	+35.7	+36.6	+41.5	+33.1	+27.8
<b>Apr '08</b>	<b>+28.8</b>	<b>+28.0</b>	<b>+20.4</b>	<b>+41.9</b>	<b>+25.2</b>	<b>+23.5</b>	<b>+18.9</b>	<b>+30.8</b>



### By sector

% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+21.3	+33.8	+28.8	+45.6	+15.9	+22.8
Oct '07	+19.0	+37.8	+27.3	+61.5	+24.8	+45.9
<b>Apr '08</b>	<b>+13.3</b>	<b>+40.1</b>	<b>+28.4</b>	<b>+49.2</b>	<b>+8.7</b>	<b>+20.2</b>

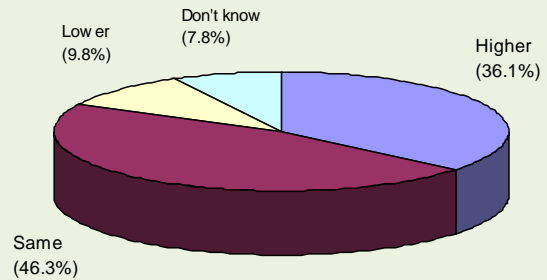


# 14 Prices charged

- EU service providers expect the annual rate of increase of their prices charged to accelerate over the coming year.
- With 36.1% forecasting higher inflation of charges and only 9.8% predicting lower inflation, the resulting net balance was +26.4.
- French service providers (+36.6) were most confident of being able to pass on their costs to customers in April. Irish firms' confidence dropped to +17.6 from +35.6 in October, making them the least optimistic with regard to their output pricing power.
- The Hotels & Restaurants industry continued to be the most confident that they would raise their charges. The Financial Intermediation sector was again the least confident.

### Total EU

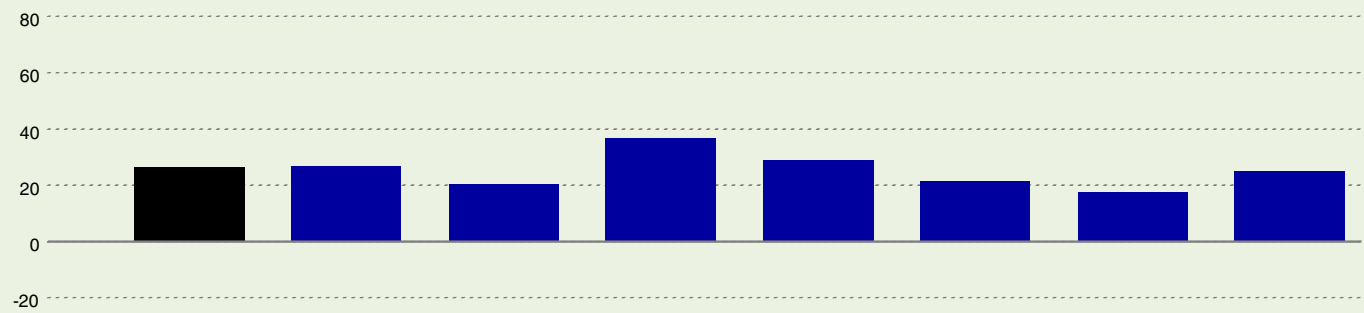
Q. Please state whether you expect the annual rate of growth of average prices charged by your company to be higher, the same or lower in twelve months' time compared with the current rate.



### By country / area

% net balances

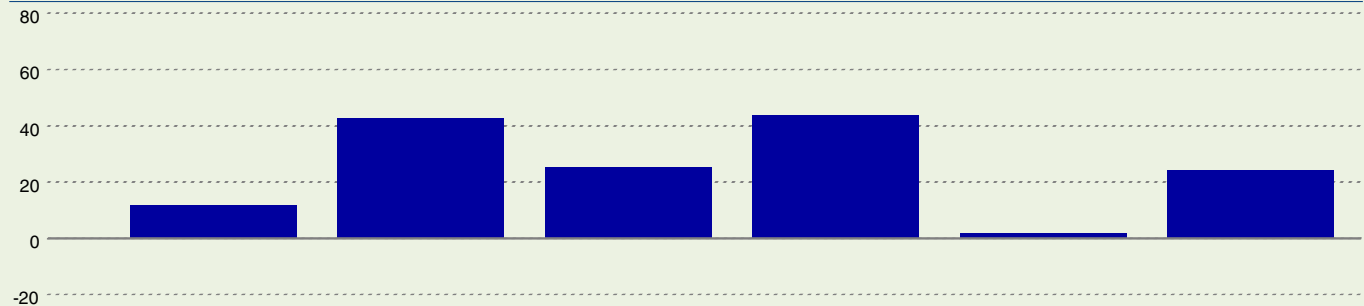
	EU	Euro-zone	Germany	France	Italy	Spain	Ireland	UK
Apr '07	+27.4	+25.9	+11.6	+28.0	+38.1	+35.8	+41.2	+31.0
Oct '07	+29.3	+29.5	+13.4	+42.9	+31.3	+38.0	+35.6	+28.7
Apr '08	<b>+26.4</b>	<b>+26.9</b>	<b>+20.4</b>	<b>+36.6</b>	<b>+29.0</b>	<b>+21.3</b>	<b>+17.6</b>	<b>+24.9</b>



### By sector

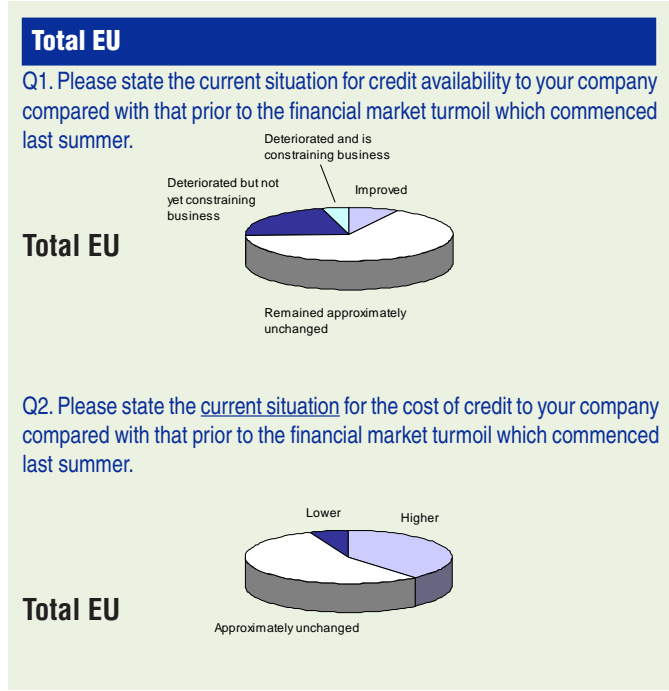
% net balances

	Post & Telecomms	Transport & Storage	Renting & Business Services	Hotels & Restaurants	Financial Intermediation	Other
Apr '07	+22.5	+38.9	+24.0	+41.3	+12.4	+32.1
Oct '07	+2.1	+49.3	+24.8	+52.9	+6.5	+33.7
Apr '08	<b>+11.7</b>	<b>+42.7</b>	<b>+25.4</b>	<b>+44.0</b>	<b>+2.0</b>	<b>+24.3</b>



# 15 Special questions (on credit availability)

- Around two-thirds of all EU service providers reported that the availability of credit to their businesses was broadly unchanged in April 2008 from the situation prior to the financial market turmoil which commenced in summer 2007.
- Just over a quarter of all firms reported that the availability of credit had deteriorated compared to last summer, while just 8% reported an improvement.
- Well over a third of all respondents reported that the cost of credit to their companies had risen compared to summer 2007.
- Over half of all EU service providers reported that the cost of credit was broadly unchanged, while just 6.2% reported a decline in the cost of credit.



**Credit availability to your company (by country / area)** **% of total respondents answering financial conditions question**

Q1. Please state the current situation for credit availability to your company compared with that prior to the financial market turmoil which commenced last summer.

	Improved	Approx. unchanged	Deteriorated, but not yet constraining the business	Deteriorated and is constraining the business
<b>EU</b>	<b>7.7</b>	<b>66.7</b>	<b>21.3</b>	<b>4.2</b>
Eurozone	8.1	62.3	24.3	5.3
Germany	7.4	58.5	31.1	3.0
France	9.8	63.9	21.3	4.9
Italy	9.7	60.2	22.3	7.8
Spain	4.1	71.1	16.5	8.2
Ireland	5.7	65.8	23.4	5.1
UK	6.8	77.4	14.1	1.7

**Cost of credit available to your company (by country / area)** **% of total respondents answering financial conditions question**

Q2. Please state the current situation for the cost of credit to your company compared with prior to the financial market turmoil which commenced last summer.

	Higher	Approx. unchanged	Lower
<b>EU</b>	<b>38.9</b>	<b>54.9</b>	<b>6.2</b>
Eurozone	42.8	50.9	6.2
Germany	37.4	55.3	7.3
France	39.3	51.8	8.9
Italy	49.5	46.4	4.1
Spain	54.2	43.8	2.1
Ireland	39.9	59.5	0.7
UK	29.4	64.4	6.2

## About the survey

### Background

The **Business Outlook Report** for the European service sector is produced by **NTC Economics** on behalf of KPMG and is based on a survey of around 2,800 service providers that are asked to give their thoughts on future business conditions. The Reports are produced on a biannual basis, with data collected and published each spring and autumn.

The countries covered by the survey are the UK, France, Germany, Italy, Ireland and Spain.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the **KPMG Business Outlook Report** for Europe is the first independent report for Europe that uses an identical methodology across all nations covered and it gives a unique perspective not only on future business conditions but also on key issues and concerns that European manufacturers have regarding future business prospects.

### Methodology

The methodology of **KPMG Business Outlook Report** is identical in all countries that NTC Economics operates. The use of a widely recognised and well-regarded methodology ensures harmonisation of data, and allows direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance in the EU and for monitoring the evolution of the Eurozone manufacturing economy by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires twice a year at six-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 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.

### Coverage

Questionnaires are sent to a representative panel of around 2,800 service providers spread across the European 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 Business Outlook Report. The current report is based on responses from around 1,150 service sector firms.

## Further Information

### Contact Details



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NTC is one of Europe's largest specialist providers of business research and information. Current research includes monthly surveys in the UK, Germany, France, Spain, the Netherlands, Austria, Greece, Ireland, the Czech Republic, Poland, Russia, Turkey, India, Hong Kong, Japan and China. Its work is widely used by central banks, government, business and the financial markets.

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