



## KPMG Business Outlook Survey for BRIC countries

*Press release: for immediate dissemination*

### Confidence in the BRIC service sector rebounds from post-financial crisis low

*However business activity prospects lowest in India, almost half from April 08*

*India and China almost at par in job creation, Brazil most optimistic*

**Thursday, May 14, 2008:** The spring 2009 **KPMG Business Outlook Survey**, which surveys around 1,400 service sector firms across the BRIC region (Brazil, Russia, India and China), signals a rise in business sentiment among BRIC service providers.

The survey represents a marked improvement in firms' assessment of conditions following the blow to confidence dealt last autumn, when Lehman Brothers collapsed and the global financial system was under severe stress. Nevertheless, panellists acknowledge that a weak global economy may dampen growth prospects at their businesses somewhat. As a result, confidence balances remain below the buoyant levels seen prior to the financial maelstrom.

**Commenting on the report release, Mr. Russell Parera, CEO, KPMG in India** said "The improved sentiment is encouraging and reflects the fact that many sectors have a significant dependency on the domestic market and have been positively impacted by lower interest rates, lower inflation and improved liquidity. The outcome of the national elections and the monsoons will in the next few months determine how this trend develops."

The net balance of firms forecasting growth of activity over the next twelve months has risen from +33.8 to +43.5. Optimism is highest in Brazil, while confidence has also rebounded strongly in Russia and India. However, sentiment in China has eased a little compared with the previous survey (although it remains highly positive). At the sector level, Hotels & Restaurants are the most bullish regarding activity.

In line with the improved outlook for activity, companies are anticipating faster growth of both new business and revenues during the next twelve months. Anecdotal evidence highlights stronger market demand as the principal factor underlying confidence. Correspondingly, optimism regarding profits has also increased since the previous survey, as signalled by the net balance climbing from +26.4 to +36.2.

With activity and new business levels expected to increase during the next twelve months, BRIC service providers are set to step up their recruitment accordingly. The net balance for employment



has improved from +17.1 to +22.5. Confidence regarding staffing levels is up in all four countries, with Brazilian firms particularly confident of an increase.

Encouraged by better prospects for company profits, BRIC service providers are planning to increase their levels of investment in capital over the next year. With a net balance of +29.5 firms anticipate higher capital spending, up from +25.1 last October. The overall figure masks divergences at the country level, where strong optimism in Brazil contrasts with muted sentiment in Russia.

Service sector firms in the BRIC countries are set to outsource a greater value of their business activities during the coming twelve months. The net balance for outsourcing has edged up from +14.2 to +15.0. By sector, Hotels & Restaurants and Transport & Storage companies anticipate the strongest rises in outsourcing.

The outlook for input cost inflation has moderated since the previous survey, with the net balance dropping from +38.3 to +34.1, the lowest in the short series history. Raw materials, wage bills and outsourcing costs are all deemed less potent sources of inflation than was the case last autumn.

Expectations for charges have also fallen back, with the net balance of firms forecasting higher growth of tariffs dropping from +23.9 to +20.2. Confidence over pricing power is notably subdued among Chinese firms.

**Commenting on the latest survey findings, Ian Gomes, Chairman of KPMG's High Growth Markets Practice, said** "The latest outlook survey signals a degree of cautious optimism among BRIC service providers. While panellists are now more confident over their own business prospects, they are nevertheless mindful of the impact that further turbulence in a weak global economy could have on domestic demand for their services.

"The findings perhaps suggest that the BRIC nations can achieve reasonable growth rates this year, even as developed economies are set to contract. Clearly the extent to which the big emerging markets can take up the slack from the US, Europe and Japan will be a key determinant of global economic prospects."

## **SURVEY FINDINGS**

### **BRAZIL**

Latest data from the BRIC Business Outlook Survey show that activity levels across Brazil's service economy are set to grow in the year ahead. The net balance of respondents anticipating an expansion in activity is up markedly to +60.4, higher than in the previous two survey periods, but below the level recorded in October 2007 (when the net balance was at +76.8).

Activity is set to be supported by an expansion of incoming new business in twelve months' time. Rising sharply from +38.2 last autumn to +62.6 in April, the latest net balance indicates that optimism regarding new work is widespread amongst Brazilian service firms.

Elevated confidence regarding new business is reflected in firms' expectations for charges. Panellists foresee higher demand for their work boosting their pricing power and leading to faster growth of output prices (net balance +55.9). Upwardly revised predictions for sales and charges underpin higher expectations for revenues and profits, with respective net balances of +58.1 and +56.8.

With company profitability set to rise strongly, the net balance of companies expecting to increase spending on fixed assets increased in April. Moreover, the latest reading of +55.0 for capital expenditure was the highest in the short series history.

Service providers in Brazil predict input price inflation to accelerate over the coming year. This is shown by a net balance of +66.2, up from +54.9 last October. Inflation is expected to be primarily driven by labour and raw material costs.

Confidence regarding future activity and new order levels impacted on employment expectations during the latest survey period. A net balance of +40.5 service firms in Brazil forecast increased hiring over the next year. This is up sharply from +27.9 last October. The net balance of panel members expecting a rise in outsourced work also rose in April, but far more modestly from +24.0 to +26.1.

## **RUSSIA**

Russian service providers expect growth in their sector to accelerate during the coming year, April's survey revealed. The net balances for business activity (+33.1), revenues (+34.6) and incoming new work (+26.8) rose from the autumn survey, pointing to a more positive outlook.

Almost 46% of respondents forecast a rise in new work over the next twelve months, up from approximately 38% in the previous survey. Growth of new business is expected to support higher business revenues over the forthcoming year, with close to half of panellists anticipating an increase.

Improvements in new business and revenues are expected to underpin growth of profits over the year ahead, with the April survey revealing that close to 43% of service providers anticipate their profitability to have increased come next spring. However, companies are not expecting to reinvest a large proportion of their profits in fixed assets, as signalled by a net balance for capital expenditure of +5.5, little-changed from +4.5 last October.

Employee numbers in the Russian service sector are forecast to increase throughout the next twelve months, with 28% of respondents predicting higher staffing levels. The net balance for employment rose from +2.3 to +9.4.



The net balance of firms expecting to raise their output charges at a faster rate over the next twelve months dropped from +48.9 to +27.8 in April. Similarly, expectations for input costs have also eased, with the net balance of firms anticipating a rise in cost inflation slipping from +38.6 to +26.8.

Russian service providers are set to increase the level of business that they outsource over the coming year. That said, April's survey suggested that growth of outsourcing would be the slowest since the survey began in the autumn of 2007.

## **INDIA**

April's BRIC Business Outlook Survey shows that India's service sector is set to grow solidly in the proceeding twelve months. A net balance of +31.1 firms foresee their activity levels expanding, up from +15.3 last autumn.

Underlying forecasts for activity growth is improved confidence about volumes of incoming new business. Around 37% of companies forecast new order growth in one year's time, compared with 16% that anticipate a fall.

Indian service firms estimate faster input cost inflation during the next twelve months. Although still well below readings seen prior to last October, the net balance of panel members expecting a stronger rise in input costs rose to +21.0. Wage bills, raw materials and outsourcing costs are all expected to be sources of inflation.

Average charges across India's service sector are also set to grow at a sharper rate over the coming year. The net balance for output prices rose from +14.9 to +17.8, with confidence underpinned by expectations of stronger pricing power.

Revenues and profits at Indian service firms are set to expand in twelve months' time, according to the latest findings. The respective net balances of +31.1 and +32.5 are up markedly on their levels of six months ago, reflecting improved forecasts for activity, new business and charges.

Staffing numbers are forecast to grow during the coming year, in line with expectations for higher activity. The net balance for employment rose from +10.4 to +18.9. Similarly, companies anticipate an increase in the amount of work they outsource (+20.6).

Capital expenditure at Indian service firms is anticipated to rise solidly in the year ahead. Exactly 43% of panellists reported that they are looking to increase spending on fixed assets, compared with just 7% that plan to reduce it. The resulting net balance of +35.7 is up substantially from last October's +20.3, but remains below levels recorded prior to then.



## CHINA

According to the latest data from the BRIC Business Outlook Survey, the twelve-month outlook for the Chinese service sector appears bright. That said, a weak global economy looks set to limit the pace of expansion over the forthcoming year. Confidence balances for activity, revenues and new business have fallen slightly from the levels recorded last October.

A net balance of +43.3 firms forecast growth of activity during the next twelve months. Although highly positive, this figure is the lowest in the short series history. Similarly, expectations regarding business revenues have fallen back since the previous survey, with the net balance dropping to +40.3 from +45.2.

Broadly in line with the findings of last autumn's survey, 48% of panellists anticipate growth of new business over the year ahead, compared with around 9% that expect a decline.

Profit forecasts remain unchanged from six months earlier and are still firmly in positive territory, as signalled by a net balance of +32.0. Robust growth of profits is set to underpin higher capital spending, with almost 31% of firms surveyed anticipating a rise in capped over the next twelve months. However, this is down from approximately 35% last October.

Chinese service providers expect to bolster their workforce numbers in the coming year, with confidence regarding staffing levels broadly unchanged from the previous survey. The net balance for employment posted +18.7, up slightly from +18.4.

A net balance of just +2.7 Chinese service providers forecast prices charged to be higher come next spring, illustrating concerns that pricing power will be muted in the face of competitive pressures.

Expectations for input price inflation have also fallen, with the net balance dropping from +41.2 to +26.3. Raw materials, salaries and outsourcing costs are all viewed as less likely to contribute to higher inflation of overall input prices.

The level of business outsourced by Chinese service providers is expected to rise over the forthcoming year. However, the net balance of firms anticipating an increase fell marginally from +8.5 six months ago to +8.3, the lowest in the series history.

## **NOTES TO EDITORS**

### **About the survey**

The **Business Outlook Survey** for BRIC services is produced by **Markit Economics** for **KPMG** and is based on a survey of around 1,400 service providers that are asked to give their thoughts on future business conditions. The Survey is produced on a biannual basis, with data collected and published each spring and autumn. The current survey is based on responses from almost 800 service sector firms.



The survey covers all four of the rapidly developing BRIC area nations: Brazil, Russia, India and China. The service sectors covered by the survey are: Hotels & Restaurants, Transport & Storage, Post & Telecommunications, Financial Intermediation, Renting & Business Activities and 'Other' Services – which primarily covers other personal services. The methodology of the **Business Outlook Survey** is identical in all countries that Markit 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.

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.

**About KPMG:**

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