



**Grant Thornton**

An instinct for growth™

## Global mid-market view

### Global optimism continues to fall and uncertainty lingers in the mid-market

- Global optimism has fallen to a three-year low, with a net optimism of +32%, down from +39% in H2 2018.
- Economic uncertainty remains elevated - 46% of firms identify this as a constraint to growth.

### Mid-market growth expectations adjust downwards

- Expectations around revenues, profitability and employment have fallen to 2016 levels globally.
- Compared with previous periods, fewer firms are expecting to increase prices over the next 12 months. This is consistent with wider risks of weak inflation, especially as global growth is slowing (IBR indicators on wage growth also do not point to significant cost-push inflationary pressures).

### Export expectations prove resilient

- One-quarter of firms identify trade tariffs as one of the most significant external barriers to international expansion, but export optimism held up well despite a slowdown in trade growth. China's export expectations are down whereas US expectations are up.

### Investments intentions are down, although R&D sparkles and technology glimmers

- Firms are generally scaling back investment in new capacity (new buildings, plant & machinery) — the balance of firms planning an increase in capex is the lowest since the global financial crisis. This is possibly in response to rising concerns over a shortage in orders, as well as increased uncertainty.
- With demand softening, firms appear to be channelling investments into quality and not quantity enhancements. R&D investment intentions are much healthier, and tech investment intentions are proving robust. This is especially relevant for emerging markets —Africa, emerging Asia and Eastern Europe.
- Rising R&D intentions are not uniformly up across sectors. TMT and consumer products have actually fallen in comparison with H2 2018, whereas financial services and business services have increased.

### Shortage of finance is a growing concern

- Shortage of finance has become more of a constraint since H1 2018 as credit standards have deteriorated, especially in the US.
- On a scale of 1-5, with 5 being 'a major growth constraint' and 1 being 'not a growth constraint', over one-third of firms identify shortage of finance as either 4 or 5 on the scale.

- Shortage of finance is a particular issue for developing economies—the top 5 countries highlighting a shortage of finance are Russia, India, Thailand, Argentina and Malaysia.
- At the sectoral level, firms in TMT and consumer products are more constrained by credit than firms in financial and business services.

### **European optimism holds up well**

- Optimism held up well vis-à-vis the global average, falling modestly in the EU to 26% in H1 2019 from 28% in H2 2018. However this follows a dramatic decline in H1 2018 (down 50%).
- Europe remains constrained by the continuation of labour market tightening. 43% of EU firms identify a lack of skilled workers as a constraint. This trend is more apparent in developed Europe.

### **North Americans are still the most optimistic**

- North American firms are the most optimistic about their country's growth prospects—nearly 70% of firms identify as 'slightly' or 'very' optimistic.
- Export expectations over the next 12 months have improved by 6ppts to 23% in H1 2019 from H2 2018.

### **The wide divergence between Emerging APAC and Developed APAC continues**

- Optimism is down generally in APAC, falling 8ppts since H2 2018 and more than 50% lower than H1 2018, but the less-developed countries continue to defy the gloom. Indeed, expectations for revenue and profit growth in the ASEAN mid-market have strengthened and are now among the highest that we see globally.
- There are stark difference in export growth expectations between developed APAC and ASEAN countries – possibly reflecting different exposures to the trade war.

### **Optimism falls dramatically in Latin America**

- Optimism in Latin America has experienced a dramatic decline, falling by 23ppts to net 23% being optimistic about the outlook for the economy in H1 2019 from net 46% in H2 2018.
- This reflects a broad slowdown across the region, with Mexico being one bright spot.