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Hiring outpaces investment in machines in 2018

- Global survey finds 40% of businesses plan to employ more workers in 2018

Hiring outpaces investment in machines in 2018 as business optimism hits record high

- Quarterly global survey finds net 40% of businesses plan to employ more workers in 2018 (net 29% 12 months ago)
- In comparison, net 36% plan to invest more in plant and machinery (net 33% 12 months ago)
- Global business optimism is at its highest ever level at net 58%
- The number of businesses expecting to see both prices (net 36%) and profitability (net 50%) rise have also reached new global highs.

LONDON – Despite the rise of automation, record global business optimism (net 58%) will see businesses turn to people in 2018 to meet swelling order books, according to new global survey data from Grant Thornton's International Business Report (IBR). Plans to hire more workers are at their highest level in a decade. However, Grant Thornton warns that, with economic indicators pointing to a potential peak in the business cycle, businesses need to balance their investment decisions and take steps to boost productivity.

What stands out is the dramatic nature of the rise in businesses planning to employ more workers – up 11 percentage points on a year ago – to net 40% from 29%. Every region, globally, has reported a year-on-year increase in employment expectations.

The desire to expand workforces comes amid healthy levels of demand, as the proportion of firms concerned about a shortage of orders falls to net 23% globally – the lowest figure recorded in a decade of IBR research. Firms are feeling confident enough to raise prices, with net 36% of firms planning to do so over the next 12 months, while net 50% of firms expect higher profits compared to net 41% a year ago.

The IBR also finds that businesses are continuing to boost their investment in plant and machinery in 2018, with net 36% saying this is the case - a rise of 3pp from a year ago. However, this relatively flat pace of growth contrasts with the figures for employment. In the US, net 49% of firms plan to expand their workforce, compared to net 39% who will spend more on plant and machinery. Meanwhile, increased investment in technology has eased during Q4 to net 44% from net 47% in Q3 2017.

Francesca Lagerberg, Global Leader Network Development at Grant Thornton, commented:

"Despite talk of the rise of the machines, the easiest and quickest way for many businesses to meet growing demand is by hiring more people to boost capacity. However, padding out the workforce is only a stop-gap solution. As unemployment falls, it will become even harder to recruit the quantity and quality of workers needed to maintain and grow productivity.

“Instead, business processes will need to become more efficient. While firms are still investing marginally more in plant and machinery, investment in technology has fallen back in the past three months. This overall change in momentum – away from tech and towards human capital – is a potential cause for concern at a time when technology offers companies one of the greatest competitive weapons.

“Optimism is soaring and expectations for increased profits are at their highest since before the global financial crisis. Firms must avoid short-termism and increase their investment in long-term growth. If they don’t, the party in 2018 could leave a hangover in 2019.”

The world’s three biggest economies are major drivers of the prevailing confidence. In the US, business optimism is at net 79%, compared to net 54% a year ago. In China, optimism is at its highest in ten years (net 78%), while Japanese firms are in positive territory for the first time in nearly three years at net 3%.

The year-on-year increase in business sentiment is evident among the vast majority of the countries surveyed. By far the biggest fall has been recorded in the UK, where business optimism fell to net 12% compared to net 26% a year ago.

Francesca Lagerberg added:

“There are signs that 2018 marks the peak of the business and economic cycle. The US is expected to increase its interest rate further, which means the cost of borrowing will rise for many businesses. At the same time, inflationary pressure is a strong possibility, with wages and prices also increasing. Forecasts suggest that global GDP will fall away from 2019 onwards.

“What can businesses do to make the most of the current environment, but make sure the music doesn’t stop at the end of this year? A better balance in where they invest will be critical. Hiring more workers has many benefits, but if investment in technology, plant and machinery doesn’t keep pace, those workers will become less efficient and profits will steadily erode.

“The move towards automation represents a threat to many traditional business models. But it also presents opportunities. Dedicated investment in technology will help businesses become more productive and boost resilience. Firms that get this right over the next year will be best placed to succeed when the global economy comes off its current high.”

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Notes to editors: The Grant Thornton International Business Report (IBR), launched in 1992 initially in nine European countries, now provides insight into the views and expectations of more than 10,000 businesses per year across 36 economies. More information: www.grantthornton.global

Questionnaires are translated into local languages with each participating country having the option to ask a small number of country specific questions in addition to the core questionnaire. Fieldwork is undertaken on a quarterly basis, primarily by telephone. IBR is a survey of both listed and privately held businesses. The data for this release are drawn from interviews with more than 2,500 chief executive officers, managing directors, chairmen or other senior executives from all industry sectors conducted in November and December 2017.

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