Wells Fargo 2017 International Business Indicator Jumps To All-Time High

Wells Fargo has been compiling its International Business Indicator (IBI) since 2014. The IBI is a composite indicator that measures the importance of the international component of a company’s business as well as its intentions to increase or decrease international activity. The data that were used in the construction of the 2017 index were collected between November 14 and January 24 from 281 U.S.-based businesses that are active internationally. Thus, all the data were collected after the U.S. elections on November 8, 2016. (The complete report can be found at www.wellsfargo.com/indicator).

The index can range from a value of zero, which indicates an absolute negative outlook, to 100, indicating an absolute positive outlook. The IBI shot up from 65 in 2016 to 74 in 2017, which is the highest level recorded in the four-year history of the index (Figure 1). At its current level of 74, the IBI suggests that businesses generally have a sanguine view of overall business conditions over the next 12 months. Indeed, 84 percent of the respondents replied that the overall business outlook over the next 12 months was either “much better” or “somewhat better.” Only 50 percent of respondents answered similarly in 2016.

The increase in the overall business outlook was attributable in part to more positive views about foreign economies with 72 percent of the survey participants saying that the international business outlook over the next 12 months would be either “much better” or “somewhat better.” This increased optimism about the international business outlook is consistent with recent data that show acceleration in global economic activity in recent months. Global industrial production (IP) was up 3.3 percent in December, the strongest year-over-year rate of global IP growth in more than 5 years (Figure 2). Economic activity in China has been decelerating over the past few months but is still positive overall.

Source: IHS Global Insight and Wells Fargo Securities

This report is available on wellsfargo.com/economics and on Bloomberg WFRE.
Most companies believe that the international component of their business will become more important to their financial success.

The results of the recent elections may be playing a role in boosting sentiment.

Respondents are concerned about growing negative attitudes toward trade pacts.

years, but growth in the world’s second largest economy appears to have stabilized in recent quarters. The Eurozone appears to be picking up some steam, and real GDP growth in Canada, America’s most important trading partner, has strengthened in recent quarters.

Not only did respondents have more optimistic views of the international business outlook but 81 percent also replied that the international component of their business would become either “much more important” or “somewhat more important” to their company’s financial success. Only 54 percent answered similarly last year. A sizeable majority (63 percent) said that the share of their company’s profits stemming from international business activity would increase over the next 12 months, and 59 percent look to source more products from overseas. Forty-one percent said that their company’s international acquisitions would increase, up sharply from only 18 percent last year. More than 90 percent of the participants either strongly agree or somewhat agree with the statement that “for long-term revenue growth, U.S. companies should consider expanding internationally.” There was nearly unanimous agreement that emerging markets represent the greatest opportunity for revenue growth.

Survey participants also had a more optimistic view of the domestic economy with 85 percent replying that U.S. business outlook was either “much better” or “somewhat better.” Incoming data show that the U.S. economy generally remains resilient more than seven years after the last recession ended in June 2009. The level of U.S. real GDP at the end of 2016 stood more than 12 percent above its pre-recession peak, and the nation’s unemployment rate has fallen to a 9-year low. The Federal Reserve feels confident enough in the economic outlook that it hiked rates in December and again in March. Most analysts look for it to tighten policy further this year.

The results of the recent elections may also be playing a role in boosting sentiment. Eighty-eight percent of the respondents in this survey said that the level of political stability in the United States would have a “very positive” or “somewhat positive” effect on their international business plans, up sharply from only 32 percent last year. The outlook for the regulatory environment in the United States also appears to have lifted spirits as 91 percent said that it would have a “very positive” or “somewhat positive” effect on their international business plans. Last year, only 26 percent responded similarly.

Downside Risk from Change in Trade Policy

In terms of specific foreign countries, China continues to lead the pack as a future growth “hot spot” for survey participants with 41 percent of respondents mentioning the country among their top three choices. (China has been the most frequently mentioned country as a future growth “hot spot” in the past three years.) Canada also garnered 41 percent of the top three choices with Mexico third at 32 percent. Interestingly, these countries seem to be most at risk from a change in U.S. trade policy by the Trump administration.

In that regard, survey participants acknowledged the downside risk to their outlooks stemming from a change in trade policy. When asked how concerned they were about the growing negative attitudes toward trade pacts, 72 percent of the respondents replied that they were “somewhat concerned” (Figure 3). The North American Free Trade Agreement (NAFTA) has been in existence for more than 20 years, and 74 percent of the survey participants said that it was either “very important” or “moderately important to their international business (Figure 4). Therefore, a re-write of NAFTA, should it occur, could have meaningful implications for the international business of the companies represented in the survey.

Furthermore, more than 40 percent of survey respondents said that the proposed Trans-Pacific Partnership (TPP), which is a free trade agreement among 12 Pacific Rim countries (including the United States), would be “very important” to their international business while 36 percent replied that it would be “moderately important” (Figure 4). However, the United States withdrew from TPP on January 23, 2017, a day before the survey period for this year’s IBI ended. The Transatlantic Trade and Investment Partnership (TTIP), a proposed free trade agreement between the United States and the European Union, was also seen as having a potentially important effect for international business (Figure 4). Unlike TPP, TTIP has not yet been
finalized, but the future of the latter is in serious doubt following the American withdraw from the former.

**Figure 3**

Concern Over Growing Negative Attitude Toward Trade Pacts

**Figure 4**

How Important Are These Trade Pacts to Your International Business?

Source: Wells Fargo Securities

In contrast to the trade pacts noted above, Brexit (i.e., the eventual withdraw of the United Kingdom from the European Union) does not appear to be meaningful for most survey participants. While 33 percent of respondents said that Brexit would have “a great deal of impact” or “somewhat of an impact” on their international business over the next 1 to 2 years, 65 percent said that it would have “not too much of an impact” or “no impact at all” on their international business. When the time frame of Brexit was expanded to 3 years or more, 61 percent still said that it would not have a meaningful impact on their international business. Among respondents who said that Brexit would impact their business, many are taking a wait-and-see approach. That is, roughly one-half of these respondents said that they are either making contingency plans only or waiting for the final exit to change their business strategy.

**Conclusion**

Participants in the Wells Fargo International Business Indicator survey currently have the most upbeat assessment of their business prospects over the next 12 months than they have had at any time over the past four years. These results span both their domestic and their international business outlooks, and the upbeat assessment that is found in the survey is consistent with other indicators of business confidence in recent months. Not only did respondents have more optimistic views of the international business outlook but they generally believe that the international component of their business would become more important to their company’s financial success.

That said, there is evidence from the survey to suggest that the outlook of survey participants could be dented if American trade policy should turn more protectionist. The vast majority of respondents said that they were “very concerned” or “somewhat concerned” by growing negative attitudes toward trade pacts. Furthermore, most participants noted that the proposed TPP would be “very important” or “moderately important” to their international business, but the United States formally withdrew from TPP essentially after the survey had been completed. Overwhelming majorities of participants also noted the importance of NAFTA and the proposed TTIP to their international business. The next round of the survey, which will be conducted later this year and early in 2018, will be important in determining what effect, if any, recent changes in U.S. trade policy are having on the outlook for international business.
Wells Fargo Securities Economics Group

Diane Schumaker-Krieg  Global Head of Research, Economics & Strategy (704) 410-1801 diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.  Chief Economist (704) 410-3275 john.silvia@wellsfargo.com
Mark Vitner  Senior Economist (704) 410-3277 mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.  Global Economist (704) 410-3274 jay.bryson@wellsfargo.com
Sam Bullard  Senior Economist (704) 410-3280 sam.bullard@wellsfargo.com
Nick Bennenbroek  Currency Strategist (212) 214-5636 nicholas.bennenbroek@wellsfargo.com
Anika R. Khan  Senior Economist (212) 214-8543 anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.  Senior Economist (704) 410-3273 eugenio.j.aleman@wellsfargo.com
Azhar Iqbal  Econometrician (704) 410-3270 azhar.iqbal@wellsfargo.com
Tim Quinlan  Senior Economist (704) 410-3283 tim.quinlan@wellsfargo.com
Eric Viloria, CFA  Currency Strategist (212) 214-5637 eric.viloria@wellsfargo.com
Sarah House  Economist (704) 410-3282 sarah.house@wellsfargo.com
Michael A. Brown  Economist (704) 410-3278 michael.a.brown@wellsfargo.com
Jamie Feik  Economist (704) 410-3291 jamie.feik@wellsfargo.com
Erik Nelson  Currency Strategist (212) 214-5652 erik.f.nelson@wellsfargo.com
Misa Batcheller  Economic Analyst (704) 410-3060 misa.n.batcheller@wellsfargo.com
Michael Pugliese  Economic Analyst (704) 410-3156 michael.d.pugliese@wellsfargo.com
Julianne Causey  Economic Analyst (704) 410-3281 julianne.causey@wellsfargo.com
E. Harry Pershing  Economic Analyst (704) 410-3034 edward.h.pershing@wellsfargo.com
Donna LaFleur  Executive Assistant (704) 410-3279 donna.lafleur@wellsfargo.com
Dawne Howes  Administrative Assistant (704) 410-3272 dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Ltd. Wells Fargo Securities, LLC, is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2017 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority’s rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE