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IHS Markit China Business Outlook

Business confidence improves to highest since early-2015

Key findings:

- Sentiment regarding future business activity improves, as optimism strengthens across manufacturing sector
- Firms widely expect a further recovery from COVID-19 pandemic
- Employment and investment intentions improve
- Companies anticipate stronger increase in costs

Data collected October 9-21

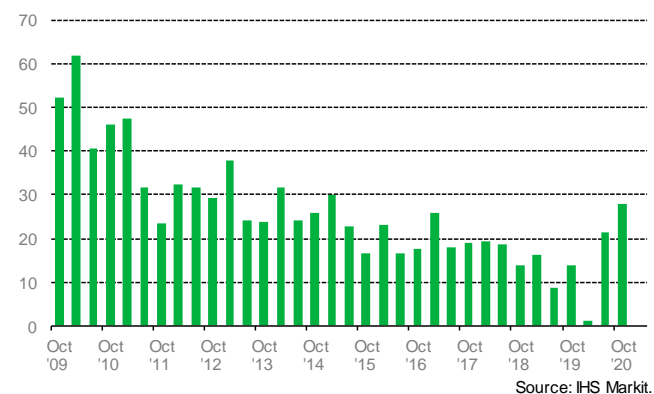
Confidence among companies in China improved again in October, as the economy continued to bounce back from the coronavirus disease 2019 (COVID-19) outbreak. Overall, the level of positive sentiment was the highest since early-2015, while forecasts for employment, capex and profits also strengthened compared to earlier in 2020.

At +28%, the net balance of Chinese companies that projected a rise in business activity over the next year was up from +22% in June. Notably, the reading marked the strongest level of optimism since February 2015 and was slightly above both the BRIC and global averages (both stood at +26% in October).

The upturn in sentiment was driven by the manufacturing sector, where the net balance of firms forecasting growth increased from +16% in June to +28% in October. Optimism was also strong across the service sector, albeit unchanged from the previous survey period (net balance at +27%).

Projections were heavily influenced by the COVID-19 pandemic, with firms that forecast higher output widely expecting global economic conditions to improve once the virus is under control. Positive sentiment was also driven by supportive state policies and expectations

China business activity expectations



that domestic demand and supply will rise if export markets recover more gradually. That said, uncertainty over the trajectory of the pandemic, and how long any restrictions related to the virus will need to remain in place, was cited as a key factor that could limit business activity growth over the next year. Greater market competition was also mentioned among a number of firms as a threat to the outlook.

Employment set to rise

The employment outlook in China brightened in October, as firms expected an increase in staff numbers over the next 12 months. This contrasted with expectations of stable workforce levels in the previous survey period, with the respective net balance rising from 0% in June to +7%. Furthermore, this was the most upbeat figure recorded since February 2018. Employment is forecast to rise at both manufacturers and service providers, with the latter expressing the stronger degree of optimism. That said, hiring intentions were slightly weaker than the global average (net balance +9%).

Expectations regarding future capital and R&D expenditure also improved in October. A net balance of +14% of Chinese firms anticipated higher capex over

the next year; the highest since February 2018. At the same time, R&D spending plans were the most upbeat since February 2019 (net balance of +14%).

Firms forecast stronger inflationary pressures

Chinese businesses expected stronger rises in both staff and non-staff costs over the next year in October. The net balance of firms predicting higher staffing costs and non-staff costs stood at +18% and +16% respectively, which were the highest readings since February. Companies in China also plan to raise their selling prices, though the net balance of +3% indicated that the rate of inflation would be relatively mild.

Profitability outlook improves

Profitability at Chinese firms is expected to improve over the next 12 months amid projections of higher output prices. Notably, the net balance of companies forecasting higher profits (+15%) was the highest since February 2017, driven by improved optimism across both the manufacturing (+14%) and service sectors (+17%).

Comment:

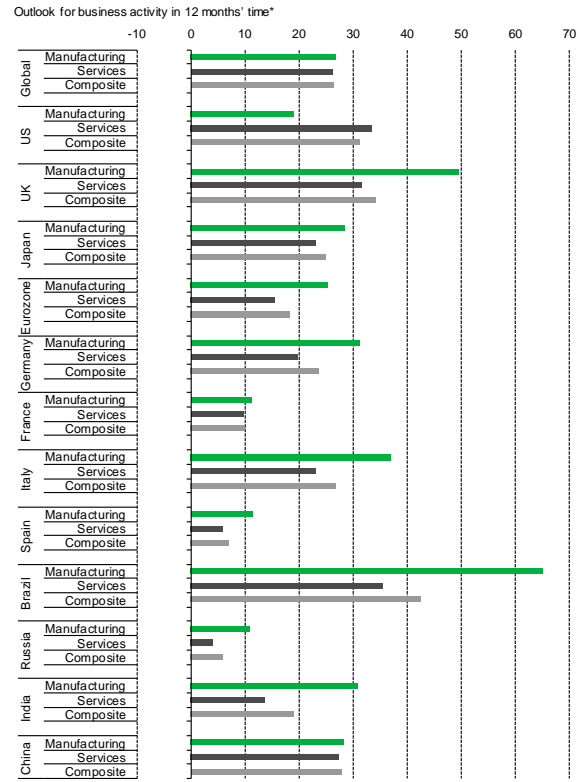
Commenting on the China Business Outlook survey data, **Annabel Fiddes**, Economics Associate Director at IHS Markit, said:

“The latest Business Outlook survey showed a further improvement in business confidence across China, as the impact of the COVID-19 pandemic continued to fade and market conditions moved closer to normalisation. Notably, expectations around future business activity were the most upbeat since early-2015, while hiring intentions returned to positive territory. Firms were also more confident of increases in capex and profitability. Companies are hopeful that the pandemic will end over the next year, which would support higher customer demand, but also highlighted supportive national policies and improved domestic demand as reasons to be optimistic. However, the unknown trajectory of the virus and weaker demand across export markets remain key threats to the outlook.”

-Ends-

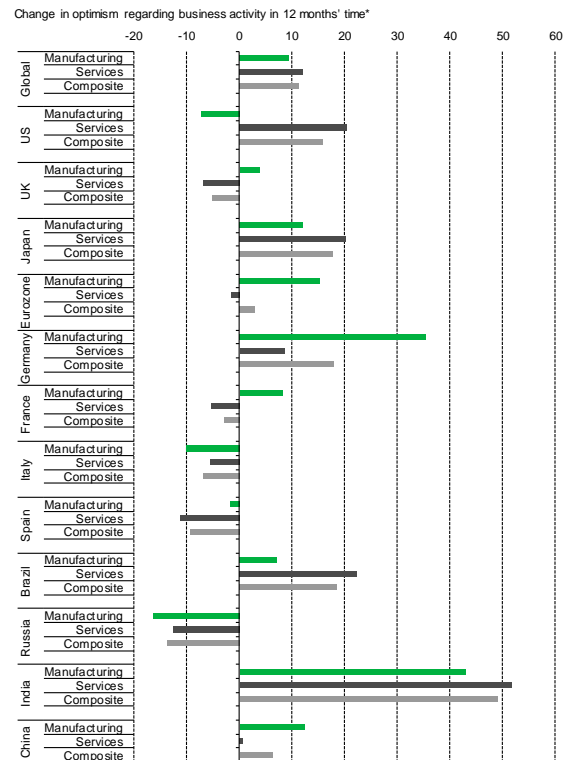
Full data available on request from economics@ihsmarkit.com

Business optimism in October



* chart shows net balance of optimists less pessimists in October.

How business activity expectations have changed since June



* chart shows net balance of optimists less pessimists in October compared to net balance in June.

For further information, please contact:**IHS Markit**

Annabel Fiddes, Economics Associate Director
Telephone +44 149 146 1010
Email annabel.fiddes@ihsmarkit.com

Katherine Smith, Public Relations
Telephone +1 781 301 9311
Email katherine.smith@ihsmarkit.com

Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between October 9 and 29.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

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 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 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.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global 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 survey. The current report is based on responses from around 7,000 firms.

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