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IHS Markit China Business Outlook

Optimism towards the outlook holds close to record low in February

Key findings:

- Business confidence regarding future activity improves only slightly from October's record low
- Manufacturers more optimistic than service providers for first time in two years
- Hiring and investment plans remain relatively muted

Data collected February 12-21

Optimism among Chinese companies regarding future business activity has improved only slightly from October's record low in February. The latest IHS Markit Business Outlook survey shows a net balance of +16% of companies forecast higher business activity over the next year, which is up only slightly from a survey low of +14% in October. At the same time, the reading also remains below both the emerging market (+23%) and global (+24) averages.

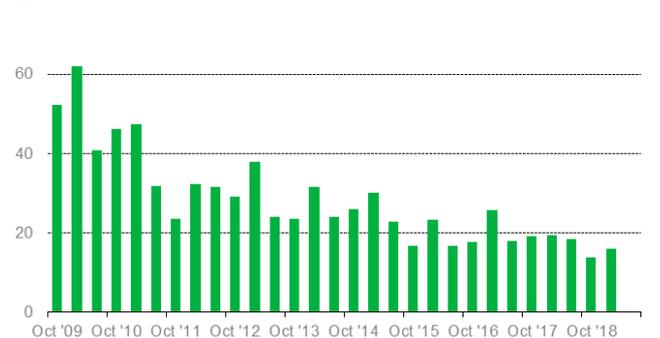
Expectations towards the year-ahead improved across the manufacturing sector, with a net balance of +18% of firms anticipating higher output over the next 12 months. This compared with a net balance of +14% of service providers that anticipate growth. Notably, it is the first time in two years that confidence across the manufacturing sector exceeds that of services.

Companies see supportive state policies (particularly tax cuts and lower interest rates), new product launches, relatively stable market conditions, rising client numbers and hopes of improved trade as reasons for optimism.

However, concerns over the outcome of the ongoing China-US trade dispute, rising raw material and labour costs, tough market competition, subdued sales volumes and strict environmental policies all weighed on overall confidence.

China business activity expectations

% of companies expecting an increase in next 12 months minus % expecting a decline



Source: IHS Markit.

Employment & Investment Plans

Although companies foresee higher staffing levels over the next year, the rate of job creation is set to be relatively subdued. A net balance of +5% of firms anticipate higher workforce numbers, up only slightly from +3% in October. On a sector basis, services companies are slightly less upbeat regarding their staff hiring plans, while manufacturers expect an increase in employment for the first time in a year (albeit only marginal).

At +13% in February, the net balance of companies projecting increased capital investment is little-changed from October (+12%) and holds close to a record low. Nonetheless, capex plans are broadly in line with the global average.

Inflation Expectations

Companies in China anticipate higher cost burdens over the next year. Notably, the net balance of firms predicting non-staff costs to increase rose from +14% to +19%; the highest figure for two years. The net balance for staff costs meanwhile stands at +24%, with both manufacturers and service providers forecasting steep increases in employment-related costs.

In tandem with expected increases in operating expenses, Chinese businesses plan to raise their output charges over the next 12 months. That said, the rate of increase is set to be marginal, with the net balance of firms projecting higher selling prices declining slightly from +6% to +5% in February. Notably, both manufacturers and service providers anticipate relatively muted increases amid reports of tough market competition.

Corporate Earnings

In line with expectations of subdued business activity and rising costs, profitability is forecast to improve only slightly over the next 12 months. At 7%, the net balance of firms anticipating higher profits is up only slightly from October (+5%), and one of the lowest seen globally.

Comment:

Commenting on the China Business Outlook survey data, **Annabel Fiddes**, Principal Economist at IHS Markit, said:

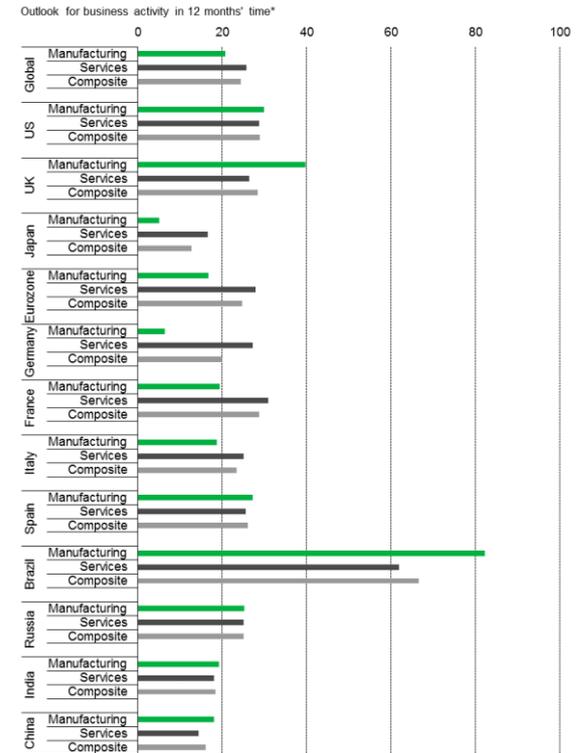
“The latest Business Outlook data show that business confidence in China remained relatively weak in February, with sentiment towards expected business activity holding close to a record low.

“While some believe supportive state policies, notably around tax regulation and interest rates, and relatively stable market conditions will help to support growth over the next year, there were a number of concerns raised by panellists. Notably, the ongoing China-US trade dispute, restrictive environmental policies and rising costs were all cited as key threats to the outlook. Furthermore, Chinese companies expressed one of the weakest levels of optimism towards future activity of all monitored nations. Consequently, expectations around staff hiring, investment and profits remained relatively lacklustre.”

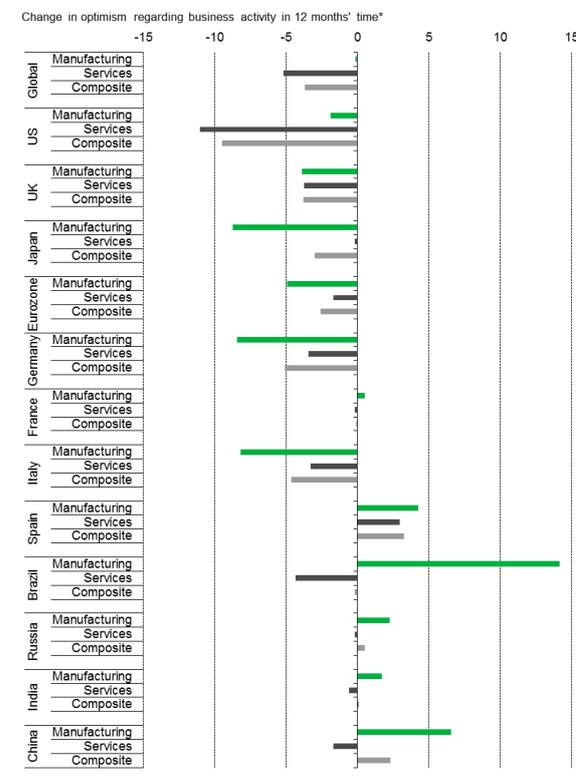
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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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 February 12 and 21.

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, fax, 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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