

EMBARGOED UNTIL: 00:01 (UTC) July 13th 2020

IHS Markit China Business Outlook

Business activity expectations rebound in June

Key findings:

- Optimism regarding future business activity improves to highest in over three years
- Output forecast to rise as more firms recover from COVID-19 outbreak
- Employment set to stagnate, however, and capex intentions weakened due to uncertainty over pandemic
- Input costs forecast to rise at slower pace

Data collected June 12-22

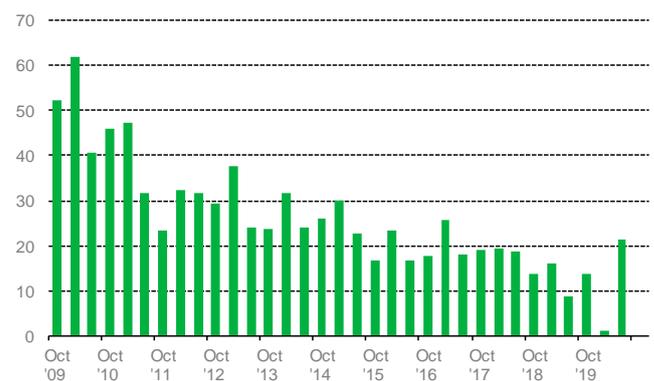
Chinese business confidence regarding future output improved notably in June, as the economy continued to recover from the impact of the coronavirus disease 2019 (COVID-19) outbreak. However, expectations around employment were neutral and firms revised down their capex plans, as there remained a great deal of uncertainty over the outlook and future global economic conditions.

The net balance of Chinese companies that expected business activity to increase over the next year was up sharply from +1% in February to +22% in June. This signalled the strongest level of positive sentiment since February 2017 and was above both the BRIC (+14%) and global (+15%) averages.

Optimism was recorded across both the manufacturing and service sectors in China during June. Services companies were more upbeat about the prospect of higher output than manufacturers overall, with the sector recording a net balance of +27% compared to +16%.

Firms that were optimistic towards future business activity generally linked this to expectations that the pandemic situation will improve, and supportive national

China business activity expectations



Source: IHS Markit.

policies. However, there were still a number of companies that expressed worries over the length and the severity of the virus outbreak both in China and abroad.

Stable employment outlook

Although businesses expected output to rise, employment across China was projected to be unchanged over the next year. The stable outlook was an improvement from the previous survey, when companies anticipated a slight reduction in staffing levels, with the respective net balance rising from -5% to 0% in June. On a sector basis, job creation at service providers is expected to offset job shedding at manufacturers.

At the same time, uncertainty over the pandemic and its impact on overall economic conditions over the year ahead weighed on sentiment around capital expenditure and spending on R&D. Capex and R&D spending expectations fell to their lowest on record in June, posting net balances of +5% and +6% respectively. The weaker net balances were largely driven by manufacturers, who had downwardly revised their spending plans since February, as services

companies expressed slightly stronger optimism compared to the previous survey period.

Inflation pressures projected to weaken

The net balance of companies forecasting higher non-staff costs over the next year fell from a recent high of +24% in February to a one-year low of +12% in June, to signal that firms expected non-staff input prices to rise at a softer pace. Cost projections for staff costs were also revised down in the latest survey, amid weak hiring intentions. At the same time, efforts to boost competitiveness and attract sales meant that firms predicted no change to their selling prices over the next year.

Profits expected to rise only slightly

Chinese firms expressed renewed optimism towards future profitability in June. At +5%, the net balance was up from -15% in February but remained historically low. Improved confidence around profitability was driven by services companies (net balance +9%), as manufacturers projected stagnant profits (net balance 0%).

Comment:

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

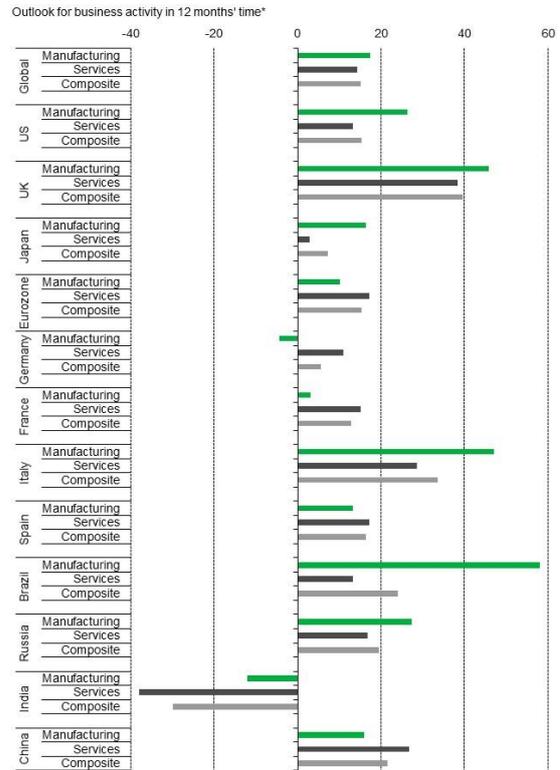
“June’s Business Outlook survey showed a rebound in confidence across Chinese companies regarding future output as the economy continued to recover from the COVID-19 pandemic and the temporary company shut downs earlier this year. Furthermore, Chinese companies were more upbeat than the average BRIC nation or indeed when compared globally.”

“However, companies were reluctant to add to their payrolls and scaled back their capex and R&D spending plans as uncertainty resulting from the pandemic continued to weigh on expectations for overall global demand conditions.”

-Ends-

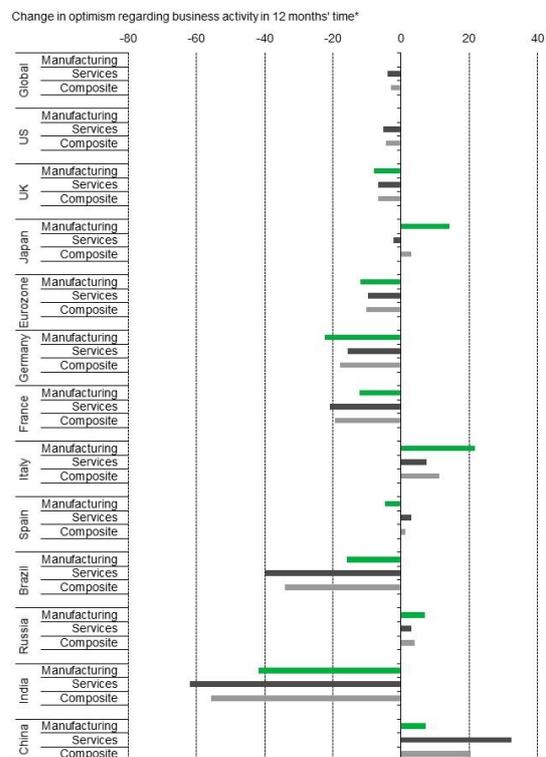
Full data available on request from economics@ihsmarkit.com

Business optimism in June



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

How business activity expectations have changed since February



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

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 June 10 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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

The intellectual property rights to the Business Outlook survey provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trade mark of IHS Markit Ltd. and/or its affiliates.

If you prefer not to receive news releases from IHS Markit, please email andrew.harker@ihsmarkit.com. To read our privacy policy, [click here](#).