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IHS Markit China Business Outlook

Chinese business confidence stuck near record low in October

Key findings:

- Optimism regarding future output picks up only slightly from June's record low
- Hiring intentions remain historically weak
- Operating expenses forecast to rise more quickly than output charges

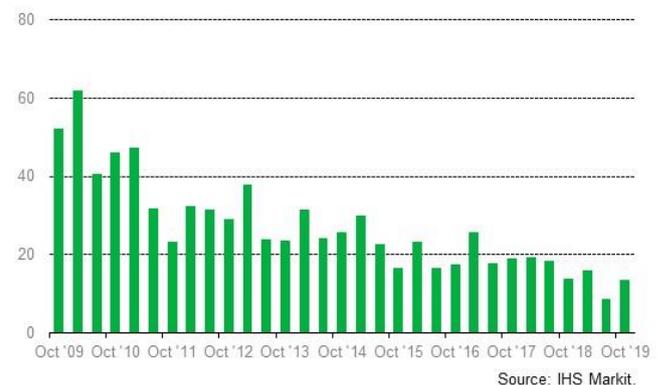
Data collected 11-24 October 2019

The latest IHS Markit Business Outlook survey indicates that Chinese companies remain relatively cautious with regards to the 12-month outlook. A net balance of +14% of firms anticipate output to increase over the next year, which is up only slightly from June's record low of +9%. That said, the latest figure is in line with the global average, with the latter having fallen to a fresh survey low in October.

Sector data shows that the slight uptick in optimism is due to stronger confidence in the manufacturing sector, as expectations weakened across the service sector. A net balance of +17% of goods producers in China forecast higher output over the next 12 months, up from a record low of just +5% in the summer. In contrast, the net balance of services firms anticipating growth is the lowest seen in the survey's history (+11%).

Positive forecasts are generally linked to expectations of stable market conditions, rising client demand, supportive state policies, greater investment in new products and increased use of automation. Stricter environmental policies are seen as both an opportunity and a threat, as they may weigh on competitors, but also limit production of some firms and industries. Other factors weighing on confidence include the ongoing US-China trade dispute, rising raw material prices, tough market competition, uncertainty and difficulties finding suitable staff.

China business activity expectations



Employment & Investment Plans

Employment growth across China is forecast to be relatively weak over the next year. A net balance of just +4% of firms expect to increase their staff numbers, up only slightly from an all-time low of +1% in June. Services companies are marginally more upbeat about future job creation than manufacturers, with net balances of +6% and +1% respectively.

In line with the trend for employment, capital investment intentions picked up slightly from June's record low, but remain historically subdued (net balance +10%). Confidence regarding capex in China is, however, slightly above the global average (+8%).

Inflation Expectations

Operating expenses faced by Chinese companies are forecast to increase over the next year. Panel members anticipate staff and non-staff costs to rise at similarly strong rates, with net balances of +17% and +16% respectively. On both counts, manufacturers anticipate faster rates of cost inflation than their service sector counterparts. Despite expectations of rising input costs, businesses operating in China plan to raise their output charges only slightly over the next 12 months. Companies often cited that greater competition for new

business is likely to weigh on overall pricing power, with both manufacturers and services firms anticipating marginal rises in their output charges.

Corporate Earnings

Following stagnant profit projections in June, Chinese firms are forecasting improved profitability over the next year. However, the net balance of firms predicting an increase in corporate earnings is only +5%, with both goods producers and service providers expressing relatively subdued levels of optimism.

Comment:

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

“Although Chinese companies are a little more confident than in June, the latest Business Outlook data show that optimism regarding the year ahead remains close to a record low in October.”

“Positive forecasts are widely attributed to supportive state policies, new product innovation and expectations of firmer demand conditions. However, projections of rising costs, the ongoing China-US trade dispute and subsequent market uncertainty all remain key factors weighing on sentiment.”

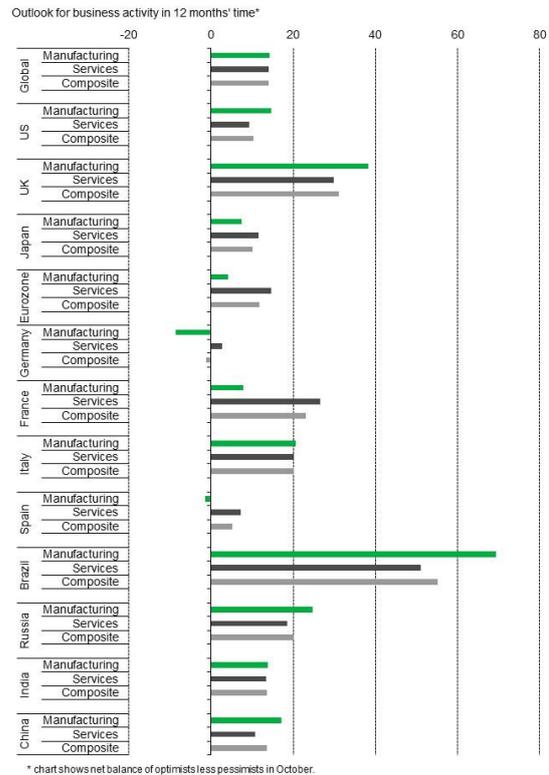
“As a result, companies anticipate a relatively modest rise in output over the next 12 months, while job creation is forecast to be only marginal. There are also signs of a greater squeeze on profit margins over the year ahead, as firms anticipate operating expenses to rise at a much quicker pace than selling prices.”

“However, China is not alone with concerns over the outlook, with business confidence globally at the lowest in the survey’s history amid increasing market uncertainty.”

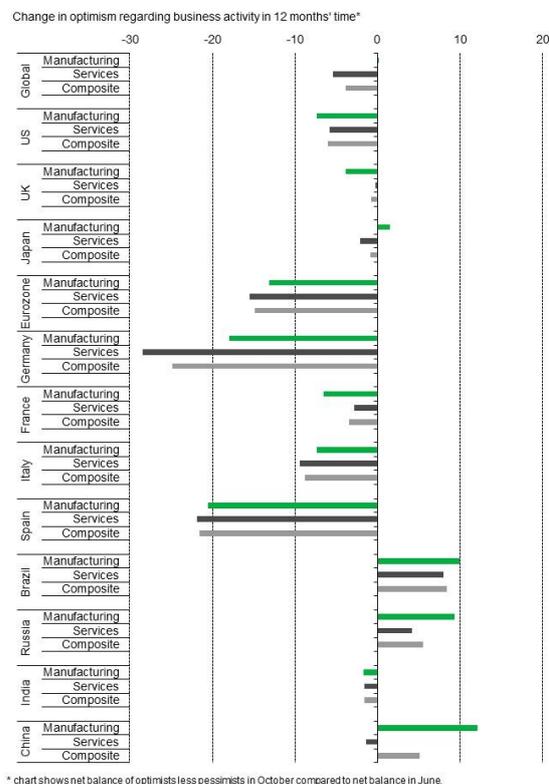
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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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 October 9 and 30.

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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