

**EMBARGOED UNTIL: 00:01 (UTC) July 15<sup>th</sup> 2019**

# IHS Markit China Business Outlook

## Optimism at Chinese companies falls to survey low in June

### Key findings:

- Business confidence regarding future activity weakest in ten-year survey history
- Profits and employment broadly expected to stall
- Staff costs forecast to rise at elevated pace

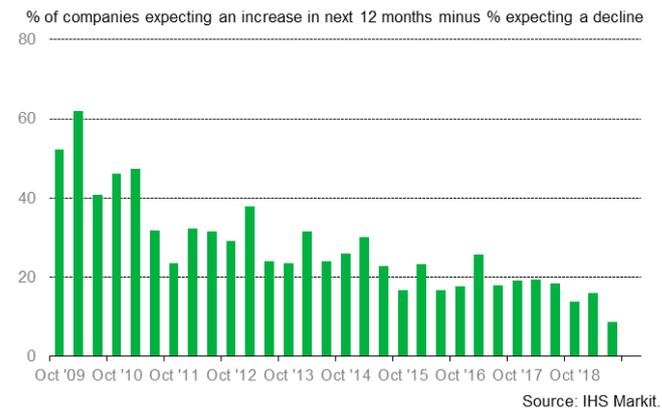
Data collected 12-21 June 2019

The level of optimism at Chinese businesses regarding future activity fell to a survey low in June. The latest IHS Markit Business Outlook survey shows the net balance of firms predicting a rise in activity declining to +9% from +16% in February. Furthermore, the latest reading is the lowest observed across all monitored countries, contributing to the weakest global average (+18%) on record.

Expectations towards the year ahead have deteriorated across both sectors, with manufacturers recording the largest drop. A net balance of +18% in February contrasts with just +5% for goods producers in June, the lowest seen in the survey so far. Service providers meanwhile saw the net balance of firms anticipating growth fall from +14% to +12% in the middle of 2019.

Supportive state policies (including tax cuts), market opportunities, new products and promotional efforts are cited as reasons for optimism among Chinese firms. At the same time, panellists note ongoing concern over the China-US trade dispute. Also, supply shortages, rising labour costs and market uncertainties weighed on confidence in the latest survey.

### China business activity expectations



### Employment & Investment Plans

The rate of job creation at Chinese companies is set to slow over the coming year. With a net balance of +1%, down from +5% in February, firms gave the weakest expectations of hiring activity since the survey began in 2009. This is partly due to manufacturers planning to cut staff numbers (-3%), while service providers are reporting subdued employment forecasts (+4%).

Similarly, the net of balance of firms projecting increased capital investment in the next 12 months is down to a survey low (+8%). Compared to other monitored countries, Chinese capex forecasts are higher than the UK only.

### Inflation Expectations

Manufacturing and services firms in China continue to expect increased costs over the coming year. That said, the net balance of firms predicting non-staff costs to rise has dropped from +19% to +11%, the lowest in two years. The net balance for staff costs has also fallen, from +24% to +18%, although it is still elevated overall as a number of firms have mentioned higher staff pay as a risk to activity growth.

Chinese businesses aim to pass some of their increased costs on to customers over the coming 12 months. However, the net balance of firms expecting output prices to rise has dropped to a three-year low of +2% in June. Both manufacturers and service providers gave softer pricing forecasts, with many noting tough market competition.

### Corporate Earnings

In line with falling business activity expectations and subdued selling price forecasts, firms are predicting flat profit levels for the year ahead. The net balance of firms anticipating higher profits has fallen to +0%, with manufacturers expecting corporate earnings to decline in the year ahead.

### Comment:

Commenting on the China Business Outlook survey data, **David Owen**, Economist at IHS Markit, said:

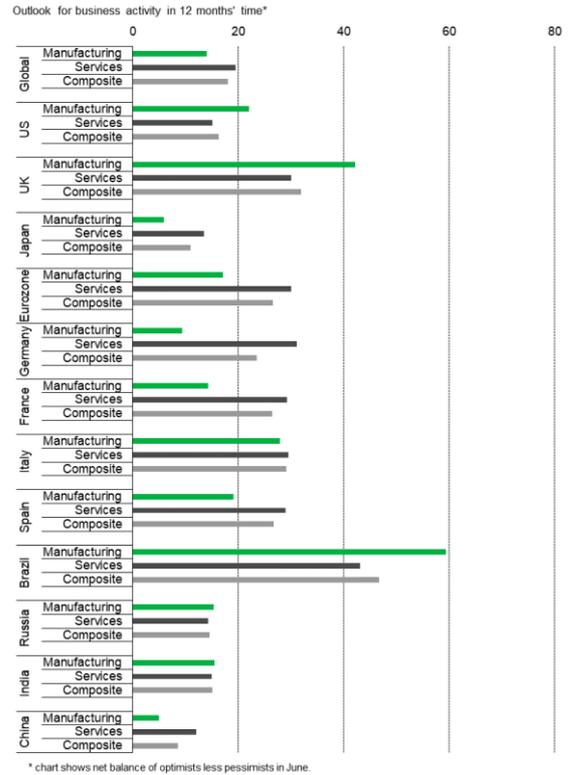
*“The latest Business Outlook data signals weaker business confidence in China during June, with activity growth forecasts deteriorating to the lowest in the survey history.*

*“While tax cuts and other state policies led to a slight improvement in the outlook earlier in 2019, the escalation of the China-US trade dispute and stronger market competition added to firms’ uncertainties at the mid-point. As a result, employment is only expected to rise marginally in the year ahead, while increasing cost pressures are forecast to place greater strain on company’s profits. Capital expenditure plans are also the weakest since the survey began, underpinning the lack of stability in Chinese markets that allows for new investment. Overall, these data suggest that businesses expect a difficult period ahead where company development may be limited.”*

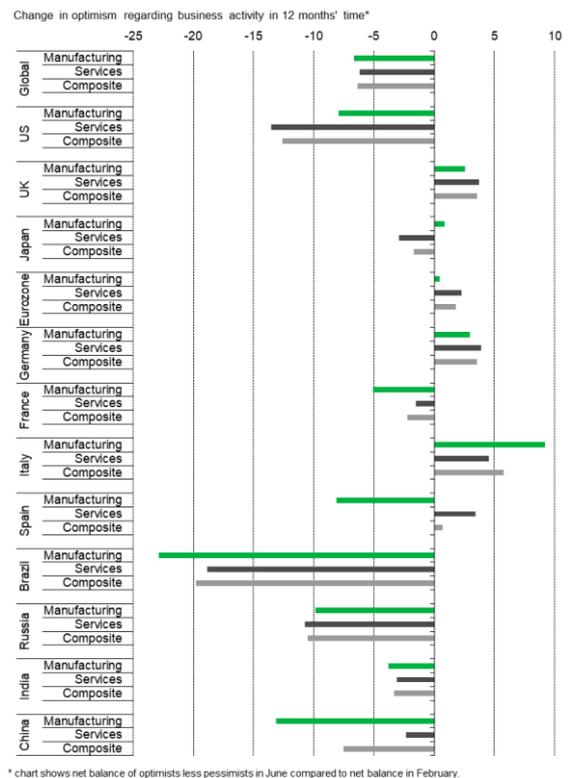
**-Ends-**

Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### Business optimism in June



### How business activity expectations have changed since February



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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 June 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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