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IHS Markit China Business Outlook

Outlook in China gloomiest on record as COVID-19 virus hits sentiment

Key findings:

- Confidence regarding future activity sinks to lowest on record
- Profits and staff hiring are both forecast to fall for the first time in the survey's history
- Operating expenses set to rise at a quicker pace

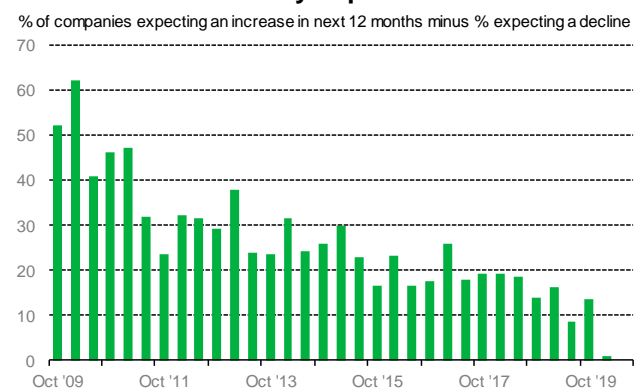
Data collected 12-21 February 2020

Chinese companies anticipate that business activity will rise only fractionally over the next year, according to the latest IHS Markit Business Outlook survey. The net balance of firms that forecast output to expand over the next 12 months is down notably from +14% last October to just +1% in February, to signal the lowest level of sentiment since the series began in late-2009. The figure is also the weakest recorded of all surveyed countries, and well below the global average (+18%).

Manufacturers have revised down their growth forecasts, with the net balance of firms expecting higher output falling from +17% in the previous survey to +9%; the second-lowest figure in 11 years. Service providers meanwhile anticipate a contraction of business activity for the first time in the series history (net balance -6%).

The recent outbreak of the coronavirus disease 2019 (COVID-19) is the most widely cited factor weighing on business confidence in the latest survey period. Firms anticipate the virus to continue to disrupt business activity through supply chain delays, travel restrictions, labour shortages and reduced client spending. Other threats to the outlook include rising expenses, intense market competition and policies around environmental protection. Positive forecasts are meanwhile linked to expectations that efforts to stop the spread of COVID-19 alongside supportive state policies will be successful and business operations will resume in the coming months.

China business activity expectations



Source: IHS Markit.

Employment & Investment Plans

Businesses in China expect employment to fall over the next 12 months, which marks the first negative labour market projection since the survey began over a decade ago. This is highlighted by the net balance of firms anticipating jobs growth declining from +4% in October to -5%. Notably, both manufacturers (-3%) and service providers (-6%) forecast a reduction in headcounts. Furthermore, China and Spain are the only two monitored countries in the survey to express negative sentiment around future employment.

Intentions around capital investment over the next year have weakened slightly in February. At +9%, the net balance of firms planning to raise their capex is down from +10% in the previous survey period, but broadly in line with the global average (+10%).

Inflation Expectations

Companies based in China expect staff and non-staff costs to rise further over the next year. A net balance of +24% of firms forecast non-staff expenses to increase, compared to +16% in October, which is the highest figure since June 2011. Meanwhile, the net balance of

companies anticipating a rise in staff costs has risen slightly from +17% to +18%. On a sector basis, manufacturers continue to expect faster rates of cost inflation than service providers.

Although operating expenses are forecast to expand at a stronger rate, output prices are set to rise only slightly over the next 12 months as firms seek to stimulate client demand. At +3%, the net balance of firms planning to raise their selling prices is down from +4% and among the lowest on record.

Corporate Earnings

For the first time in the survey's history, Chinese firms anticipate profits to decline over the next year. The fall in the net balance from +5% to -15% indicates that companies forecast a strong decline in profitability overall, with both manufacturers and service providers expressing negative sentiment around future profits.

Comment:

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

“The latest Business Outlook data showed that Chinese firms were the least upbeat on record at the start of 2020, with firms anticipating output to be broadly flat over the next year.

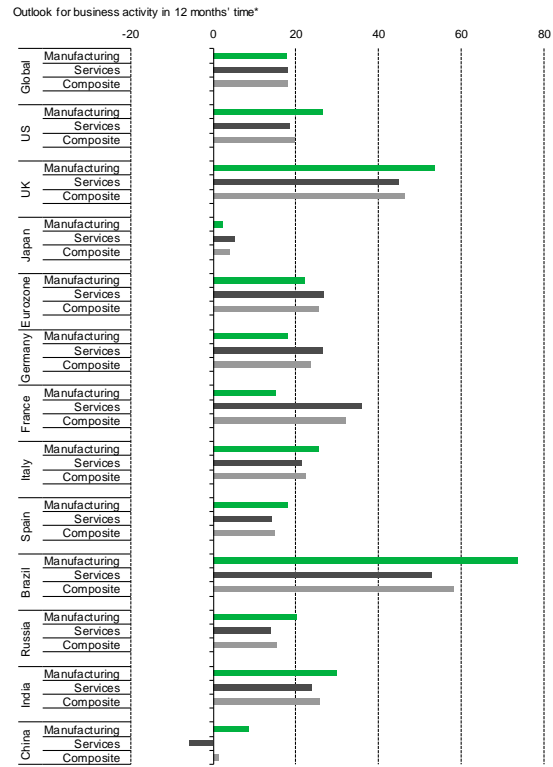
“The COVID-19 virus was cited as the number one threat to the outlook, as companies were uncertain as to how long this would impact business operations. Concerns around labour availability, supply chain disruptions and weaker client spending, particularly among those in consumer-facing and transport-related sectors, were reported in February. Nonetheless, firms were also wary of rising costs and intense market competition.

“The impact of the COVID-19 virus will not only weigh on China going forward, however, as countries around the globe grapple with stopping the spread of infection while also trying to limit its impact on economic growth and market confidence.”

-Ends-

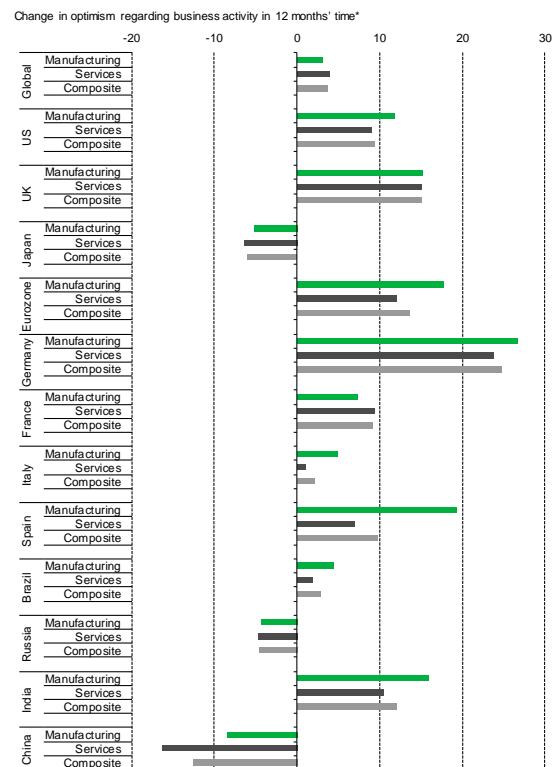
Full data available on request from economics@ihsmarkit.com

Business optimism in February



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

How business activity expectations have changed since October



* chart shows net balance of optimists less pessimists in February compared to net balance in 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 27.

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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