

**EMBARGOED UNTIL: 23:01 (UTC) July 11<sup>th</sup> 2021**

# IHS Markit China Business Outlook

## Optimism towards future output remains robust in June

### Key findings:

- Confidence regarding future business activity holds close to six-year high
- Employment and investment intentions soften from February
- Input costs and output charges both expected to rise

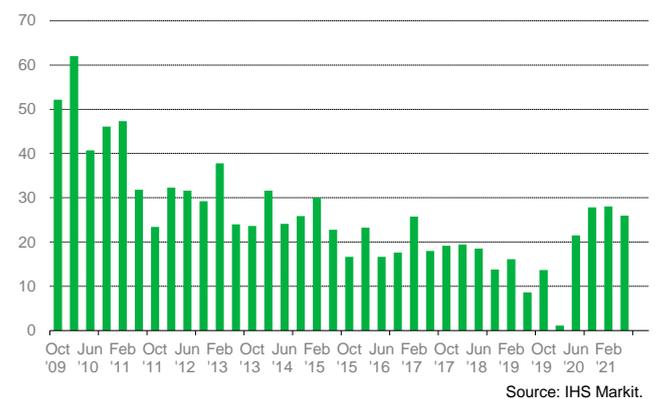
Data collected June 10-22

Chinese businesses remained highly upbeat regarding future business activity midway through 2021, according to the latest IHS Markit China Business Outlook survey. Optimism slipped only slightly from February, to signal one of the highest levels of positive sentiment for over six years. However, sentiment around staff hiring and investment softened since the start of the year. At the same time, companies anticipated further increases in both input costs and selling prices over the next 12 months.

A net balance of +26% of Chinese companies projected a rise in business activity over the next year in June. This was down only slightly from February's joint-six year high of +28% and pointed to a robust level of confidence overall. While expectations were above the BRIC average (+24%), the net balance was below the global average (+38%).

Confidence stemmed from rising vaccination rates and hopes of an end to the pandemic, which in turn would drive further improvements in customer demand both at home and abroad. Supportive state policies, the development of new products and forecasts of more stable raw material prices were also mentioned. However, there were a number of threats around the outlook for output, including uncertainty over how long

### China business activity expectations



the global pandemic will last, expectations of higher purchasing and labour costs, continued supply chain disruption, exchange rate movements and environmental protection policies.

On a sector basis, optimism towards future business activity was similarly strong at manufacturers (net balance +25%) and service providers (+26%).

### Employment and investment intentions soften since February

At +6% in June, the net balance of companies in China that expected to raise their staffing levels over the next year dipped slightly from +8% in February to reach a one-year low. While the reading was in line with the BRIC average, hiring intentions remained weaker than that seen globally (+21%). Sector data showed that both manufacturers and service providers were slightly less optimistic of adding to their payroll numbers over the next 12 months.

Firms were also less upbeat about capital expenditure plans, with the respective net balance falling from +17% in February to a one-year low of +9% in June. A similar trend was recorded for R&D spending, with the

respective net balance slipping from +18% at the start of 2021 to +9% in the latest survey period.

## Inflationary pressures set to ease slightly

Higher input prices were forecasted in June, with both staff and non-staff costs anticipated to be greater than current levels in one year's time. The net balance of companies that projected higher staff costs fell from February's series high of +25% to +20% in June, however. The net balance of companies expecting an increase non-staff costs meanwhile slipped from a one-year peak of +24% to +17% in the latest survey period.

In line with the trend for costs, the net balance of Chinese companies that projected increased selling prices fell in June. At +7%, the latest reading was down from +10% in February, but the second-highest seen over the past three years.

## Optimism around future profitability weakens

With input costs projected to rise quicker than selling prices, expectations around profitability weakened in June. The net balance of firms projecting higher profits fell from +16% in February to a one-year low of +8%.

### Comment:

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

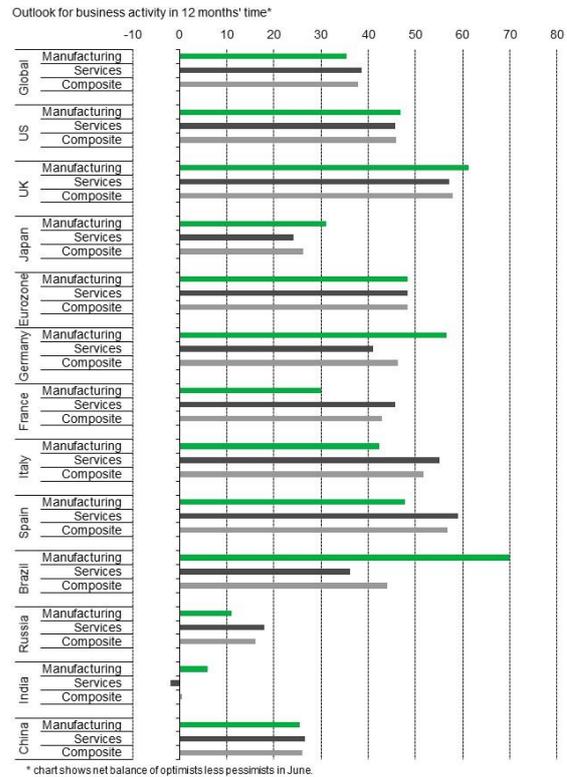
*“The latest Business Outlook data show that Chinese firms remained strongly upbeat about their prospects for the year ahead, though confidence did slip a little since the start of the year. Notably, the net balance of Chinese firms forecasting growth of output was lower than that seen on average globally, largely due to marked upturns in sentiment in the US and across Europe.”*

*“Chinese firms expect that increased vaccination rates and an end to the COVID-19 pandemic will boost activity and new orders over the coming months. However, concerns over how long it will take to fully contain the virus, and for supply chains and market conditions to normalise, remained key threats to the outlook.”*

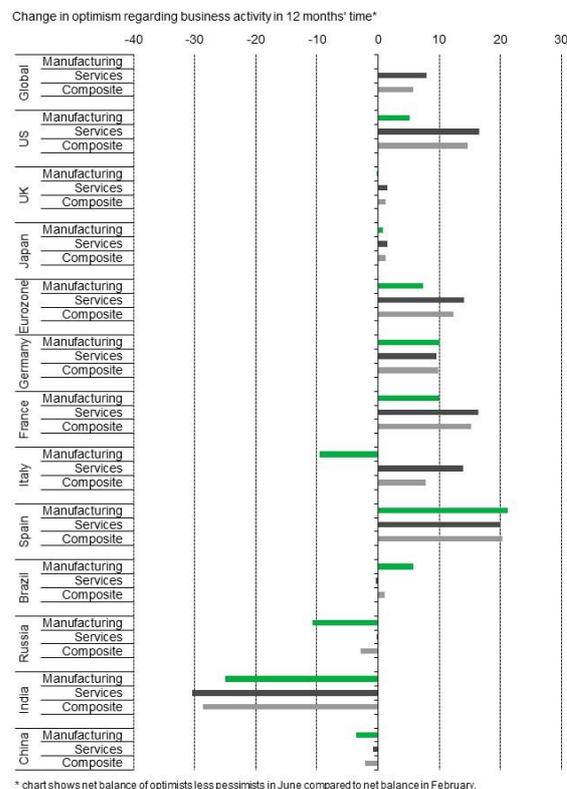
### -Ends-

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 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 8,000 firms.

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