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IHS Markit China Business Outlook

Rising costs and pandemic disruption dampen optimism in October

Key findings:

- Business confidence regarding year-ahead dips to lowest since June 2020
- Companies anticipate stronger increases in input costs and output charges
- Hiring intentions weaken slightly
- Stronger optimism towards capex and R&D spend

Data collected October 12-21

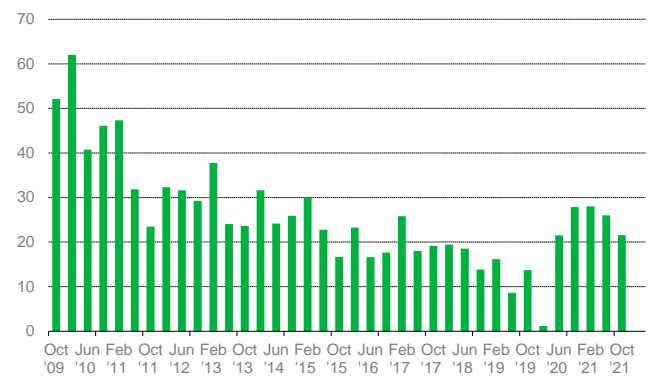
The latest IHS Markit Business Outlook survey showed that confidence among Chinese firms faded in October amid concerns over rising expenses and disruption to operations amid the ongoing pandemic. Overall, sentiment regarding future business activity slipped to its lowest for just over one year.

Inflationary pressures are meanwhile expected to intensify, with stronger increases in both input costs and output charges projected for the year ahead.

At +22% in October, the net balance of Chinese companies that anticipate output to expand over the next year was down from +26% in June and the lowest since June 2020. Although the figure was lower than the global average (+31%), it was broadly in line with the BRIC average (+23%). Sector data showed that manufacturers were less optimistic than service providers regarding the year ahead outlook for output, and recorded net balances of +17% and +25%, respectively.

Growth forecasts were supported by expectations that the pandemic will be successfully contained, and client demand at home and overseas will continue to improve. There were also comments that supportive state policies, particularly around taxation, increased expenditure on research & development, new product

China business activity expectations



Source: IHS Markit.

launches and more stable supplier performance could boost business activity over the next year.

At the same time, there were a number of threats around the outlook, with the ongoing pandemic firmly at the forefront of firms' minds, and the potential for further outbreaks of the virus and restrictions in China or abroad. Rising costs for raw materials and labour, power rationing and cuts, environmental policies and supply chain disruption were also cited as key factors that could weigh on activity over the next year.

Employment intentions soften slightly, but investment plans strengthen

The net balance of Chinese companies that plan to increase their workforce numbers over the next 12 months slipped from +6% in June to +5% in October. Sector data highlighted divergent trends, with manufacturers forecasting a slight drop in employment, while hiring intentions amongst service providers picked up to the highest since February 2018.

Encouragingly, investment plans for the year ahead improved in October. The net balance of companies in China forecasting higher capex rose from +9% in June

to +17% in the latest survey period, while the net balance of companies anticipating increased R&D spending improved from +9% to +16%.

Inflationary pressures set to intensify

Chinese businesses expect both input costs and output charges to increase over the coming 12 months. The net balance of firms forecasting higher staff expenses rose from +20% in June to +25% in October; the highest since data collection began 12 years ago. At the same time, supply chain constraints and expectations of rising raw material prices led firms to anticipate higher non-staff costs (net balance +23%, up from +17% in June).

As part of efforts to share part of their higher cost burdens with clients, companies plan to raise their prices charged over the next year. At 11%, the respective net balance was up from +7% in June and the highest since February 2017.

Firms slightly less upbeat about profits

Rising costs are expected to squeeze profits over the next 12 months, with the net balance of companies projecting improved profitability slipping from +8% to +7%; the lowest figure since June 2020 with manufacturers predicting a slight fall in profits.

Comment:

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

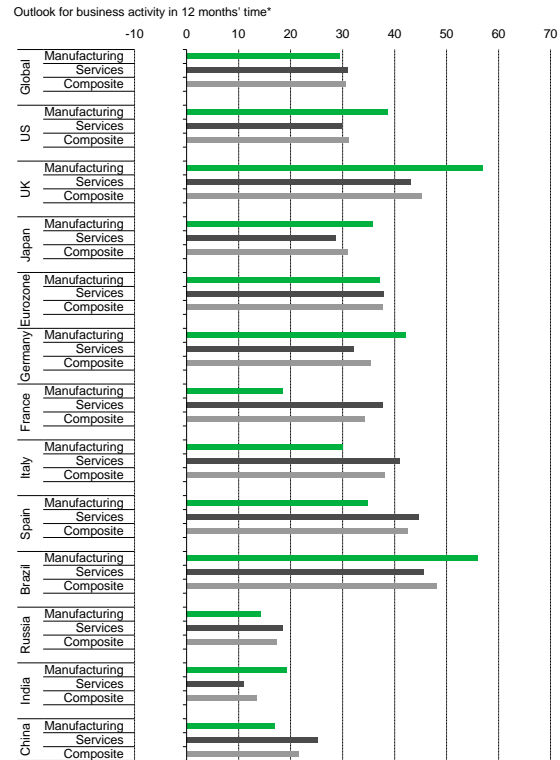
“Business confidence in China regarding the year ahead outlook waned slightly in October, largely due to weaker sentiment among manufacturers, amid concerns over rising costs, pandemic-related disruption and power cuts. Overall optimism was also lower than that seen across other major markets such as Europe and the US.

“That being said, many firms were confident that the successful containment of the COVID-19 pandemic would provide opportunities for growth at home and overseas, while investment intentions strengthened since the previous survey in June, as more companies look to improve efficiency and develop new products to boost activity and sales in the coming months.”

-Ends-

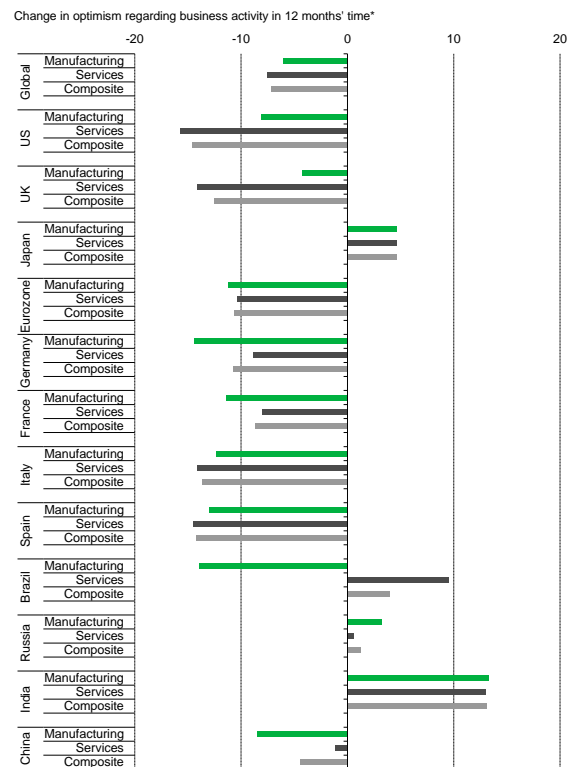
Full data available on request from economics@ihsmarkit.com

Business optimism in October



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

How business activity expectations have changed since June



* chart shows net balance of optimists less pessimists in October compared to net balance in 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 11 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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