

**EMBARGOED UNTIL: 00:01 (UTC) November 19<sup>th</sup> 2018**

# IHS Markit China Business Outlook

## Business confidence slips to record low in October

### Key findings:

- Optimism towards future activity, new orders and profitability at record lows
- Employment set to increase only slightly
- Inflationary pressures forecast to be weaker than global average

Data collected October 12-24

The latest IHS Markit Business Outlook survey signals a deterioration in business confidence among Chinese companies to the lowest on record in October. At +14%, the net balance of firms anticipating higher business activity in one year's time is down from +19% in June and the lowest reading since the survey began in late-2009. The net balance for China is also the lowest of all nations monitored by the survey.

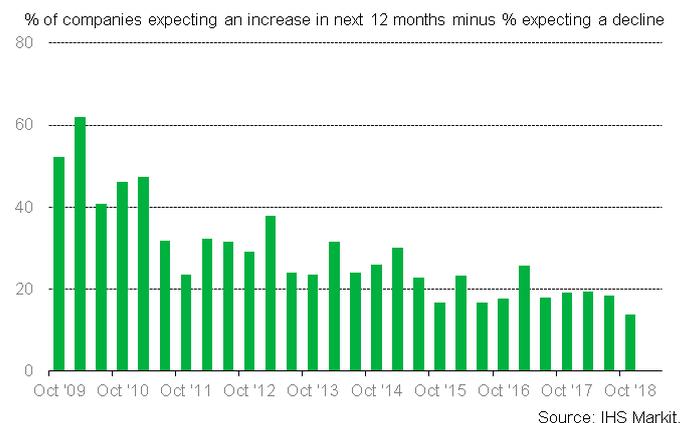
While many companies believe that strong domestic demand, new products and supportive state policies will help to lift activity, there are several factors weighing on overall sentiment towards the end of 2018.

The ongoing China-US trade dispute, strict environmental policies, exchange rate movements, rising costs for materials and labour, and a generally weak global economic environment are all expected to dampen growth over the next year.

In the manufacturing sector, optimism fell to the lowest since the survey's inception (net balance of +12%), while confidence across the service sector also deteriorated to a record low (+16%).

Reflective of the trend for business activity, expectations around future new orders weakened in October to a fresh survey low. Projections around new work were downwardly revised across both monitored sectors, with manufacturers expressing a lower level of optimism than service providers.

### China business activity expectations



### Employment & Investment Plans

Reduced confidence around future new business and activity led firms to maintain relatively muted staff hiring plans for the next year. Notably, the net balance of businesses anticipating higher workforce numbers is unchanged from June's recent low of +3%. Trends diverged at the sector level, however, with planned job creation at services companies offsetting expected job cuts at manufacturing firms.

October data also point to a further rise in capital expenditure over the coming 12 months. That said, the capex net balance dipped to a three-year low of +12%. Expenditure on R&D is also projected to increase at manufacturing companies, though the respective net balance fell to a two-year low of +14%.

### Inflation Expectations

Chinese businesses anticipate cost burdens to increase over the next year. A net balance of +18% of firms predict higher input costs, which is little-changed from the summer. Notably, inflation expectations are among the lowest seen of all nations covered by the survey.

Output charges set by Chinese firms are also forecast to increase. That said, the net balance of firms planning to increase their prices fell to the lowest level since June 2017 (+6%). The decrease in the net balance is driven by the manufacturing sector, which has seen a fall to +7% from +12%.

### Corporate Earnings

Lower confidence around new orders impacted forecasts for business revenues and profits for the next 12 months. Notably, the net balance of companies anticipating higher business revenues fell to a survey low of +11% in October. The deterioration was broad-based, with both goods producers and service providers revealing lower levels of positive sentiment. Expectations around corporate earnings also declined to the lowest on record, with a net balance of just +5% of firms anticipating an improvement.

### Comment:

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

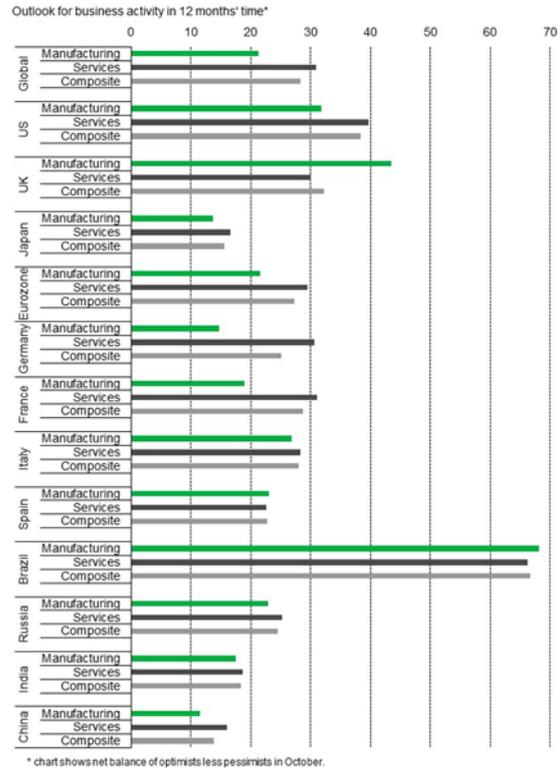
*“Chinese companies expressed the lowest level of optimism towards the business outlook on record in October. Confidence regarding future business activity, new orders, profits and revenues all fell to the lowest levels since the survey began in late-2009. Furthermore, business sentiment in China was the weakest of all nations monitored by the survey.”*

*“The ongoing China-US trade dispute, restrictive environmental policies, unfavourable exchange rates, rising labour costs and weaker global economic growth are all expected to weigh on economic performance. However, some firms believe that stronger domestic demand, new products and supportive policies could help lift activity over the next year.”*

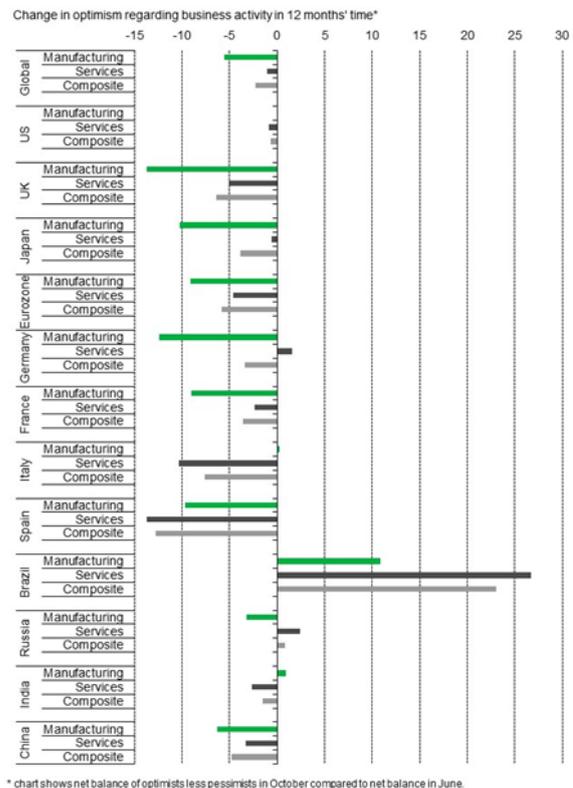
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### Business optimism in October



### How business activity expectations have changed since June



**For further information, please contact:****IHS Markit**

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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 12 and 24.

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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