

**EMBARGOED UNTIL: 00:01 (UTC) March 15<sup>th</sup> 2021**

# IHS Markit China Business Outlook

## Chinese firms remain strongly optimistic at start of 2021

### Key findings:

- Confidence regarding future business activity at joint-highest for six years
- Upbeat forecasts widely linked to expectations of a strong global economic rebound from COVID-19
- More firms set to scale up their investment plans
- Inflationary pressures projected to intensify

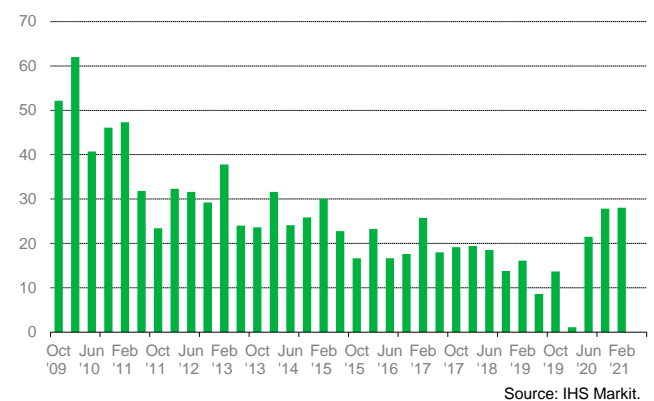
Data collected February 2-18

The latest IHS Markit China Business Outlook survey signalled that Chinese companies remained strongly optimistic at the start of 2021. Expectations regarding future business activity were unchanged from October's multi-year high amid hopes of a further recovery from the coronavirus disease 2019 (COVID-19) pandemic, while firms were also more confident about investment plans. However, businesses projected stronger increases in both input costs and output charges.

A net balance of +28% of Chinese firms expected a rise in business activity over the next year, unchanged from that seen last October, to mark the joint-strongest level of optimism for six years. However, the reading was slightly below the global (+32%) and BRIC (+29%) averages, which had both risen since last October.

Upbeat forecasts were widely linked to expectations that the pandemic will be brought under control and of a successful vaccine rollout, so that business conditions can normalise across the world. Optimism was also driven by increased investment, new product launches and supportive state policies, including tax relief. Nonetheless, uncertainty over the trajectory of the pandemic, and any future waves of infection, remained a key threat to the outlook as firms feared this could weaken demand and reduce travel. Companies also mentioned that rising input costs and difficulties in recruiting staff could hamper performance.

### China business activity expectations



Data broken down by sector revealed that manufacturers remained slightly more positive than service providers. A net balance of +29% of goods producers expected increased output over the next year; the highest figure for seven years. Sentiment across the service sector was meanwhile unchanged from October and the joint-highest for six years (+27%).

### Hiring and investment plans are revised up

Latest data pointed to an expansion of employment across China over the next year. A net balance of +8% of companies projected higher staffing levels for the year ahead, up slightly from +7% in October, which marked the most upbeat forecast since early-2018. That said, hiring intentions were weaker than the global average (net balance of +15%). Manufacturers were slightly more optimistic with regards to future job creation than their service sector counterparts, recording net balances of +9% and +7% respectively.

Capital expenditure forecasts were also positive at the start of the year. At +17%, the net balance of firms that anticipated greater capex was the highest for three years. Some firms mentioned increasing spending on automation, online platforms and 5G technology.

R&D spending was also expected to expand over the next 12 months. At +18%, the net balance of companies planning to raise their R&D expenditure was the highest since this series began two years ago. Goods producers expressed stronger optimism towards spending on R&D than services companies.

## Inflationary pressures likely to intensify

Input price expectations were revised up in February, with both staff and non-staff costs projected to rise at steeper rates. The net balance of firms anticipating greater staffing costs stood at +25%; the highest since comparable data were first available in February 2019. At +24%, the net balance for non-staff costs stood at a one-year high. In both cases, manufacturers predicted much faster increases than service providers.

Despite projections of strong cost pressures, the net balance of companies forecasting higher selling prices remained relatively subdued. At +10%, the respective net balance hit a three-year high, but remained below the global average (+17%).

## Profitability forecasts improve slightly

Although companies anticipate greater operating expenses, expectations around profitability remained strongly positive in February. At +16%, the corresponding net balance was the highest recorded for four years, albeit below the global average (+19%).

## Comment:

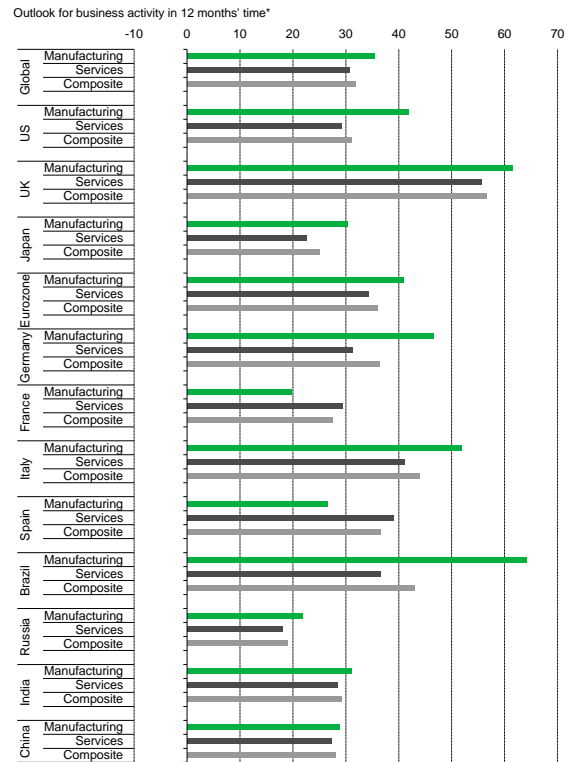
Commenting on the China Business Outlook survey data, **Annabel Fiddes**, Economics Associate Director at IHS Markit, said:

*“Optimism regarding future business activity in China remained robust in February amid hopes of an end to the pandemic and a successful vaccine rollout, leading to a release of pent-up client demand at home and abroad. As a result, firms also anticipate further rises in employment and investment. However, the rebound in global economic conditions is anticipated to be accompanied by rising price pressures, with firms projecting steep increases in raw material and staff costs, which could squeeze margins.”*

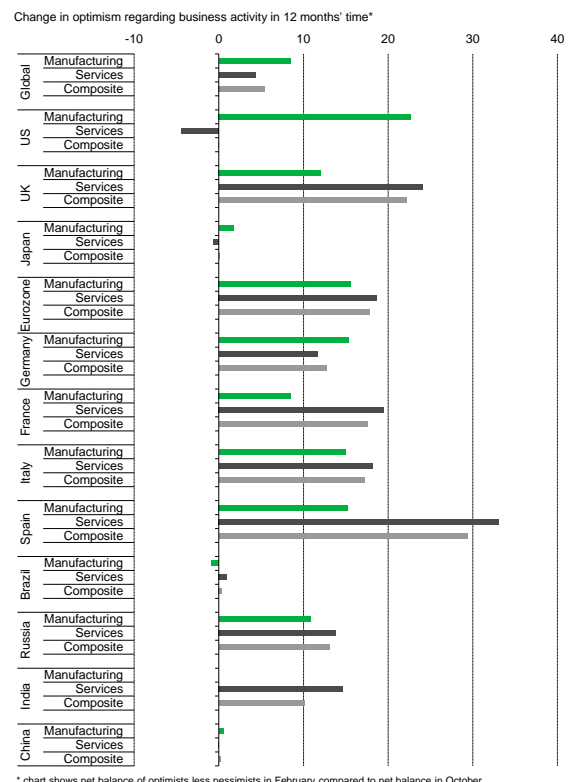
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in February



## How business activity expectations have changed since 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 2 and 25.

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 7,000 firms.

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