

## News Release

**EMBARGOED UNTIL: 08:01 (Beijing) / 00.01 (UTC), November 9<sup>th</sup> 2015**

# Markit China Business Outlook

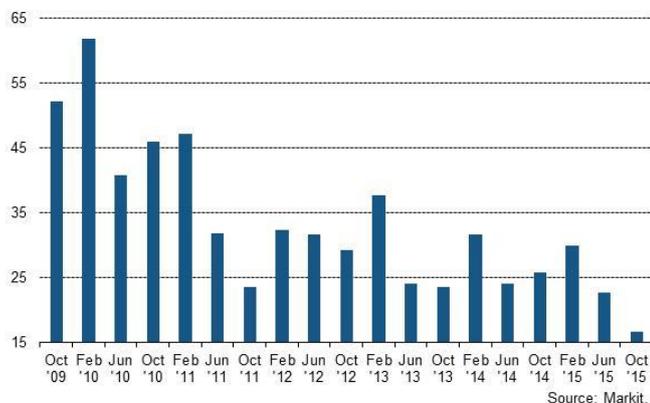
## China posts lowest business sentiment on record

- **Confidence towards business activity, new orders and employment falls to fresh lows**
- **Business revenues and profits forecasts are revised down**
- **Cost pressures set to remain muted**

Data collected 12-28 October 2015

### China business activity future expectations

% of companies expecting an increase in next 12 months minus % expecting a decline



The latest Markit Business Outlook Survey signalled the weakest level of optimism amongst Chinese companies since data collection began late-2009. This was highlighted by a net balance of just +17% of firms expecting business activity to rise over the next year, down from a previous low of +23% in June.

The latest net balance was broadly in line with that seen across the BRIC nations as a whole (+18%), but remained below the global average (+25%), which also reached a record low in October. According to sector data, business confidence declined to a fresh low at service providers and a near-record low at manufacturers. A net balance of +15% of manufacturing companies forecast output to rise over

the next 12 months, down from +22 in the summer. The equivalent index for services fell from +24% in June to +19% in October.

Companies that are upbeat about growth prospects in 2016 generally commented on new product developments, low raw material prices, reduced interest rates and expectations of improving economic conditions. Meanwhile, relatively poor market conditions, changes to state policies, exchange rate movements and a lack of capital are all cited as threats to growth over the coming year.

In line with softer activity growth expectations, optimism towards new business and business revenues also dipped to record lows in October.

### Staff numbers set to increase fractionally

Weaker sentiment towards activity and new orders led companies to revise down overall employment growth expectations for the year ahead (net balance of +2% – a record low).

Divergent trends were seen at the sector level, with manufacturers forecasting lower headcounts for the first time in the series history (net balance of -3%, down from +3% in June) while service providers expect a further expansion of payroll numbers. That said, a net balance of +9% in the service sector is down from +12% in the previous outlook survey and the lowest seen in the series history.

### Capex plans revised down

Chinese companies expect to increase capital expenditure over the next year. A net balance of +11 per cent was down from +18% in June's survey, however, and a fresh survey low. Both manufacturers

and service providers forecast to raise capex at a slower pace in the next 12 months.

### Cost burdens forecast to rise only slightly

Average input prices faced by Chinese businesses are expected to rise only slightly over the coming year. A net balance of just +3% of firms forecast higher input costs in October, down from +9% in June, to signal the weakest inflation expectations in the series history. At the sector level, manufacturers anticipate a fall in cost burdens (net balance of -6%). This is the first time deflation has been forecast in the sector since mid-2012. In contrast, service sector companies expect input costs to increase over the next year, though October's net balance of +14% is the lowest for a year.

Overall, output charges are set to fall slightly, with a number of firms commenting on greater competition for new business. Reflective of forecasts for input costs, manufacturers expect to reduce their selling prices over the next 12 months, while service sector companies predict only a slight increase.

#### Comment:

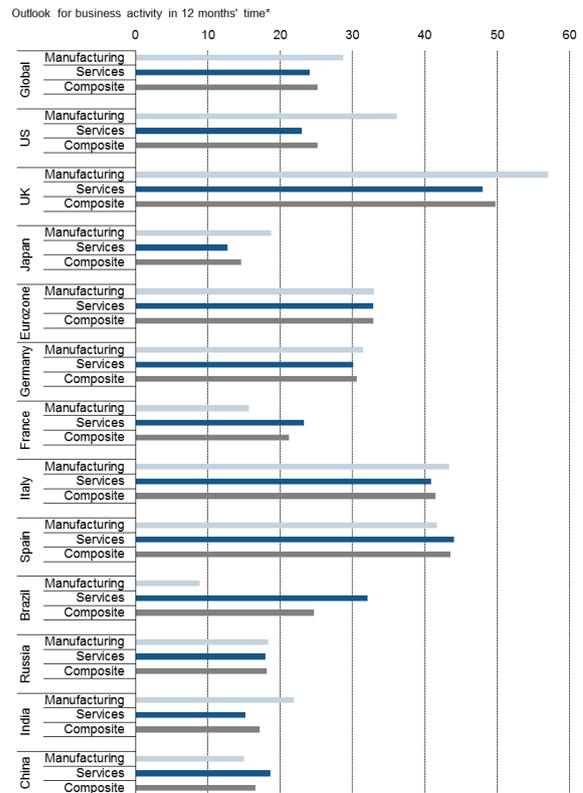
*“Chinese companies have seen business confidence wane since early 2015, with optimism towards the 12-month outlook falling to its lowest on record in October. Expectations of activity, new business and employment growth all fell to fresh lows in the latest survey, as challenging economic conditions continued to weigh on optimism.”*

*“The drop in sentiment was broad-based, with both manufacturers and service sector companies revising down growth forecasts since the summer. This is expected to translate into bad news for the labour market, with goods producers anticipating a fall in staff numbers over the next year, while services companies anticipate only a slight increase in employment.”*

*“Price pressures are meanwhile set to remain relatively muted, as companies expect only a slight rise in input costs. However, relatively weak client demand and increased competition for new business has led companies to expect to use price discounting strategies in the year ahead.”*

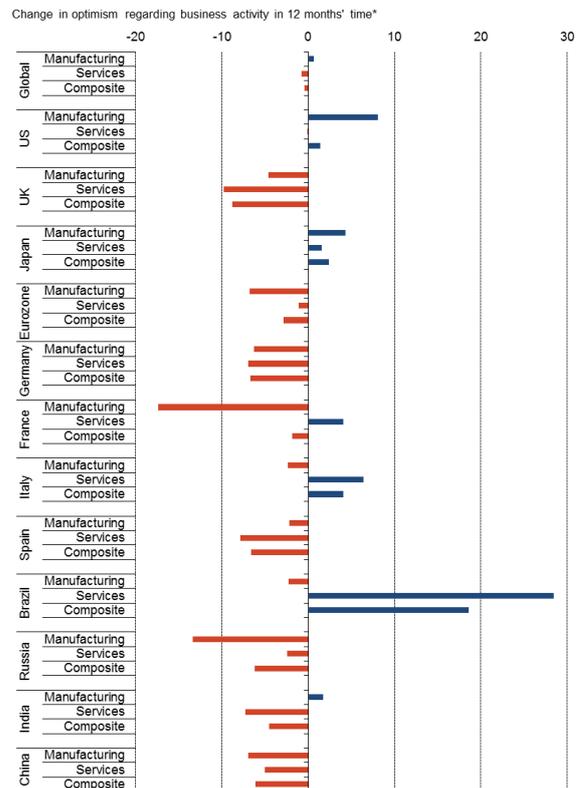
**Annabel Fiddes, Economist, Markit**

### Business optimism in October



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

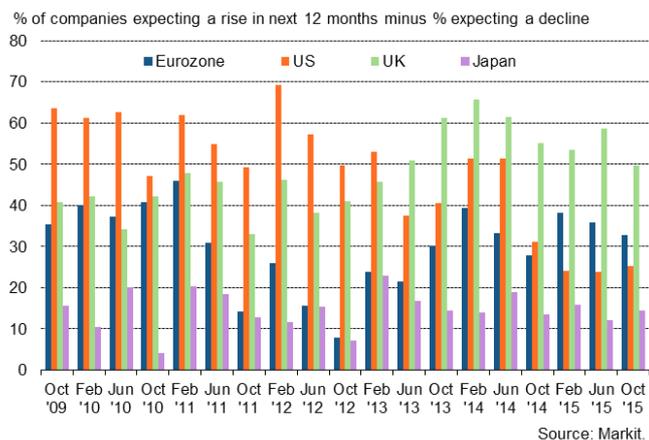
### How business activity expectations have changed since June



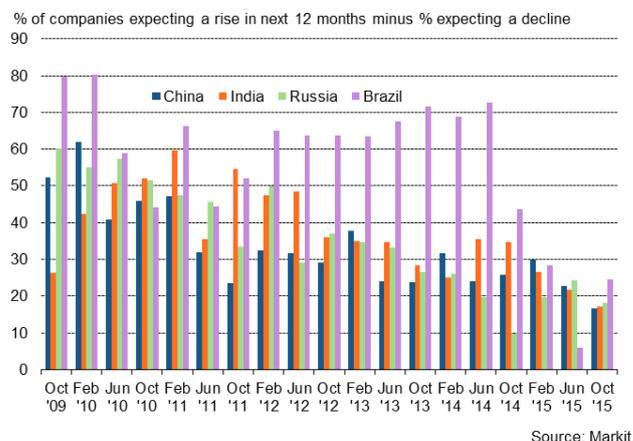
\* chart shows net balance of optimists less pessimists in October compared to net balance in June.

## Long-term trends in expected future business activity levels in key economies

### Key developed economies



### Key emerging markets



-Ends-

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

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### Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by Markit Economics 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 28.

The countries covered by the survey are the US, Japan, Germany, the UK, France, Italy, Spain, Ireland, Austria\*, the Netherlands\*, Greece\*, the Czech Republic\*, Poland\*, Brazil, Russia, India and China. (\*Manufacturing only)

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 Markit Economics 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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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 6,400 firms.

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Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI™) series, which is now available for over 30 countries and key regions including the Euro zone and BRIC. The PMIs have become one of the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision-makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/economics](http://www.markit.com/economics).

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