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IHS Markit China Business Outlook

Business confidence remains lacklustre in October

Key findings:

- Sentiment towards future business activity picks up only slightly
- Expectations around new orders and business revenues remain subdued
- Hiring plans scaled back

Data collected October 11-24

The IHS Markit Business Outlook survey indicates that optimism among Chinese companies held close to a record low in October. Latest data signals subdued levels of confidence across both the manufacturing and service sectors towards future business activity, new orders and business revenues. At the same time, companies revised down their hiring plans, while forecasting stronger cost pressures.

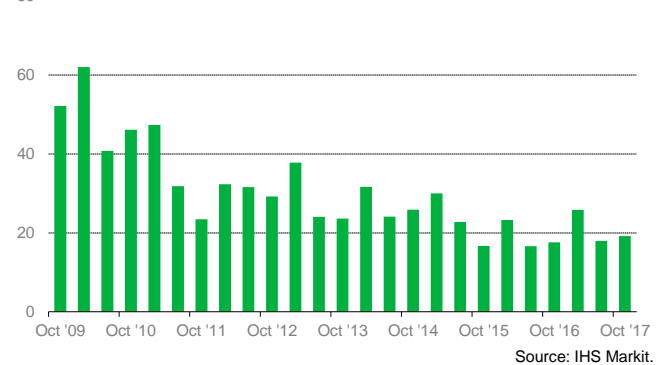
Expectations around business activity appear relatively muted across China, with a net balance of +19% of companies forecasting growth. This is up only slightly from the previous survey period (+18%), and among the lowest seen in eight years of data collection.

Companies see new products, improving domestic economic conditions and state policy support as opportunities for growth over the coming year. On the other hand, a number of firms note that tough competition, rising input costs and amendments to national policies could all weigh on economic performance. There are also a number of reports suggesting that stricter environmental policies could dampen growth.

In line with expectations for activity, Chinese companies foresee a relatively subdued increase in new orders over the next year. Furthermore, the degree of optimism towards new business prospects held close to the record low seen in June 2016.

China business activity expectations

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



Employment & Investment Plans

Chinese employment is set to rise only slightly over the next 12 months. Furthermore, the level of sentiment regarding job hiring is at its weakest for a year and the lowest seen of all surveyed countries.

In contrast, companies made a slight upward revision to their capex plans in October, though the net balance of companies forecasting higher expenditure remains below the series average.

Inflation Expectations

Input prices faced by Chinese firms are anticipated to rise further over the coming year. Both manufacturers and service providers foresee a stronger increase in cost burdens than in the previous survey period, with the former expecting a steeper pace of inflation. Projections of greater input costs are widely attributed to rising raw material prices for items such as steel and fuel, alongside increasing staff costs.

Reflective of higher cost burdens, companies generally expect to increase their output charges over the year ahead. That said, the rate of increase looks set to remain weaker than that for input costs.

Corporate Earnings

Projections of business revenues were unchanged from June to signal a relatively muted level of confidence overall. Furthermore, the degree of optimism fell short of the BRIC, eurozone and US averages. Combined with rising costs, companies forecast only a slight improvement in profitability over the next year. Notably, sentiment around profits is at its lowest since June 2016.

Comment:

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

“The latest IHS Markit Business Outlook survey indicates that business confidence remains relatively fragile in China. Optimism towards future activity and new orders stayed at historically low levels at both manufacturers and service providers, leading companies to limit their hiring plans. Moreover, employment growth is set to be driven by the service sector, as manufacturers expect staff numbers to broadly stagnate.

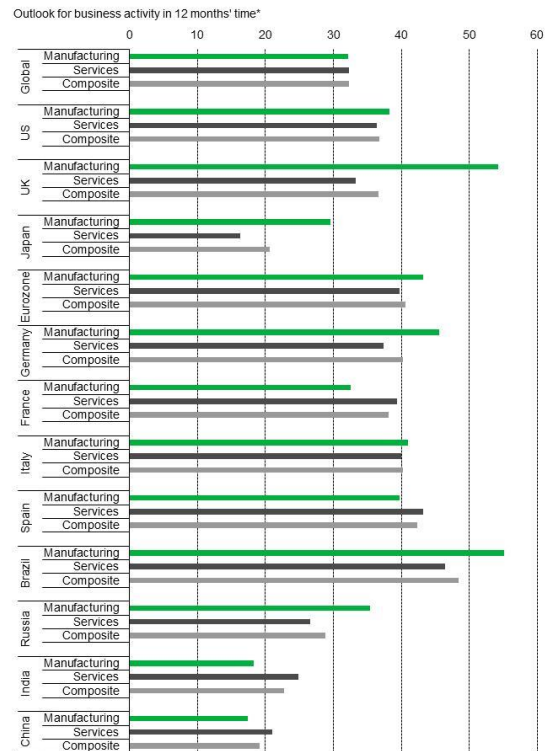
“Positive expectations were largely centred on new products and improving domestic conditions. However, national policies were seen as both an opportunity and threat to the overall outlook. Some firms mentioned that recent amendments could boost growth. At the same time, policies around environmental protection and greater market competition were seen as possible barriers to expansion.

“Inflationary pressures are anticipated to intensify over the next year, with firms generally expecting input costs to rise at a faster pace than output charges. This projected squeeze on margins fed through to weaker expected profits growth, with optimism towards profitability at its lowest since June 2016.”

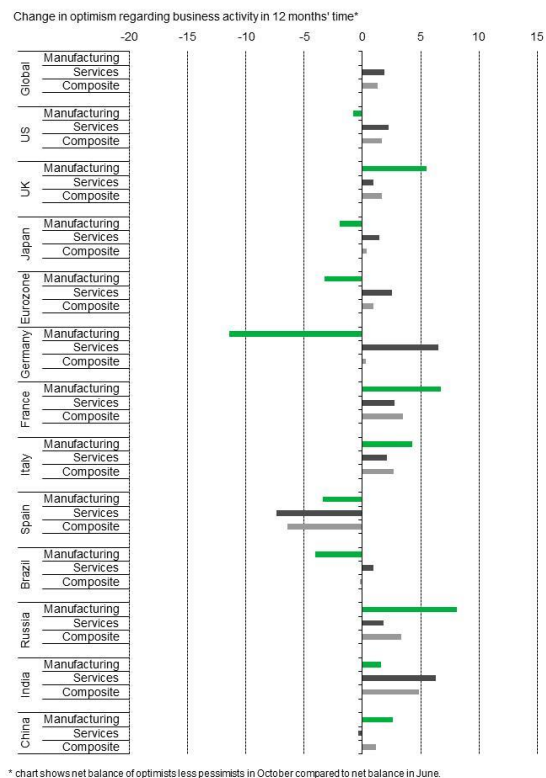
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since 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 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 0.0 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 7,000 firms.

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