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Markit China Business Outlook

Optimism among Chinese companies reaches two-year high

Key findings:

- Confidence towards future activity and new orders improves across both monitored sectors
- Manufacturers' payrolls set to expand for first time in nearly two years
- Cost pressures forecast to intensify

Data collected February 9-21

Chinese businesses remain optimistic that activity will increase over the next year in February. Furthermore, the latest Markit Business Outlook survey indicates that overall confidence has strengthened to a two-year high. A net balance of +26% of firms forecast higher output in the year ahead, up from +18% in October. Nonetheless, this is slightly below the global (+31%) and BRIC (+28%) averages. At the sector level, manufacturers are slightly more optimistic than services companies (net balances at +27% and +24% respectively).

Optimism is supported by forecasts of improving market conditions, supportive national policies, increased R&D efforts, greater client numbers and strong branding. Some firms also expect the depreciation of the RMB to support growth in the coming year.

Threats to the outlook include tough market competition, rising costs for materials and staff, difficulties accessing finance and future changes to state policies.

In line with the trend for activity, expectations towards new business is also at a two-year peak in February. The net balance of companies forecasting higher new orders has risen to +27%, reflecting stronger sentiment among manufacturers (+28%) and service (+25%) providers alike.

China business activity expectations



As a result, business revenues are also forecast to increase at a faster pace over the next 12 months. A net balance of +25% of companies anticipate higher business revenues in the latest outlook survey, up from +17% in October, and its highest for two years.

Broad-based job creation forecast

Employment across China is set to increase slightly over the next year, with a net balance of +8% of firms projecting payroll growth. Service providers (net balance of +11%) expect to increase their staff numbers at a faster pace than manufacturers (+5%). Nonetheless, it is the first time goods producers hold positive expectations around employment since the June 2015 survey period.

Capex plans revised up

A net balance of +21% of Chinese firms anticipate higher capital expenditure over the next year. This is up from +13% in the autumn and its highest level since October 2014. Optimism has improved across both the manufacturing and service sectors with regard to capex plans, with both sectors seeing similar levels of positive sentiment.

Firms expect stronger inflationary pressures

Predictions of higher costs for raw materials and staff led companies to believe input prices will continue to rise over the next 12 months. Notably, a net balance of +22% of firms forecast greater cost burdens, the highest amount in four years. Cost inflation is forecast to be stronger at manufacturers (+26%) than service providers (+16%), with the former noting the highest net balance since June 2011.

Expectations of output charge inflation also picked up in February. A net balance of +12% of companies anticipate higher selling prices over the next year, the highest reading since February 2013. Stronger charge inflation is forecast in both the manufacturing and service sectors.

Comment:

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

“The latest Business Outlook survey shows that Chinese companies are the most optimistic towards future growth for two years in February.”

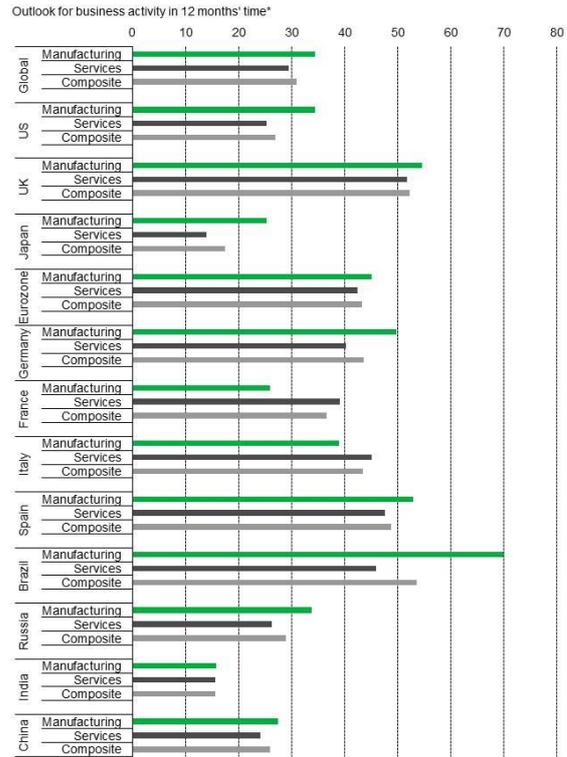
“Encouragingly, sentiment picked up across both sectors, with overall confidence towards future activity, new business and revenues at their highest for two years. This translated into improved hiring plans at service providers, while manufacturers expect to raise their staff numbers for the first time since June 2015.”

“Projections of stronger growth in the next year coincide with forecasts of strengthening inflationary pressures. Furthermore, both input costs and output charges are expected to increase at the quickest pace in four years. Price rises look set to be stronger at manufacturers, who are particularly vulnerable to price movements for energy and commodities.”

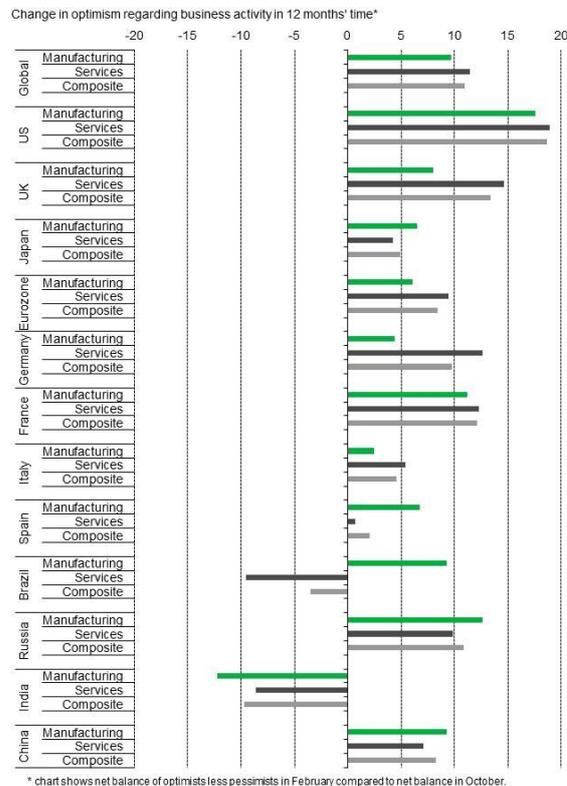
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Full data available on request from economics@ihsmarkit.com

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 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 9 and 21.

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 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 6,600 firms.

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