News Release

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S&P Global China Business Outlook

Output expectations in China at lowest since start of pandemic

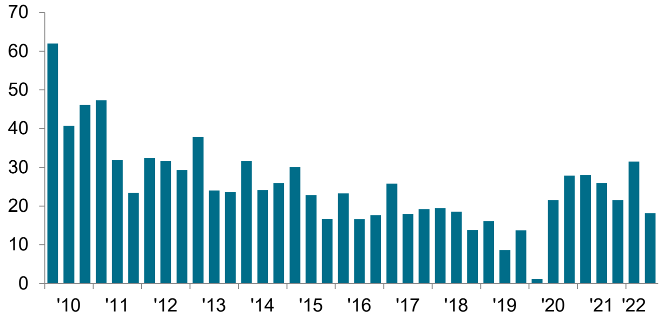
Key findings

Business activity optimism slips to lowest since February 2020

Employment forecast to stagnate

Profit expectations hit two-year low

China Business Activity expectations



Source: S&P Global.
Data were collected 13-22 June 2022.

Concerns over future outbreaks of COVID-19, the impact of prolonged pandemic-containment measures and rising costs weighed on business confidence in China during June. Notably, optimism regarding the 12-month outlook for business activity fell to its lowest since the initial phase of the pandemic in early 2020. As a result, companies anticipate that staffing levels will stagnate over the next year. At the same time, firms forecast that non-staff costs will rise at a quicker rate than staff costs, but output price inflation is set to ease, leading firms to revise down profitability projections.

Having risen to an eight-year high of +32% in February, the net balance of Chinese companies that forecast higher output over the next 12 months slipped to +18% in June, according to the latest S&P Global China Business Outlook survey. This signalled the weakest optimism since February 2020 and was below the long-run series trend of +26%. Business confidence in China was also slightly weaker than that seen globally (+22%).

Firms often mentioned that concerns about repeated COVID-19 outbreaks and the impact of virus containment measures on output and supply had led them to become more cautious with regards to the 12-month outlook. Rising costs and the Russia-Ukraine war also weighed on growth forecasts in June.

When detailing business opportunities for the next year, companies stated that an improvement in the pandemic situation could facilitate a strong recovery in activity levels and ease strain on supply chains. There were also reports that supportive government policy, particularly around taxation, and greater investment

Comment

Commenting on the China Business Outlook survey data, Annabel Fiddes, Economics Associate Director at S&P Global Market Intelligence, said:

“Chinese businesses were more cautious with regards to growth projections in June, as uncertainty around future waves of COVID-19 and further disruption to operations weighed on confidence. Rising costs, strained supply chains and greater global economic uncertainty were also seen as headwinds to growth. Notably, optimism around output over the coming 12 months hit its lowest since the start of the pandemic in February 2020.

"Consequently, businesses were less willing to take on additional workers, with staffing levels forecast to stagnate over the next year. While this helped to moderate projections for staff costs, other expenses like raw materials are still expected to rise further amid ongoing supply chain disruption. At the same time, firms were less confident of raising their own selling prices due to efforts to remain competitive, which in turn led firms to be less upbeat about profits."

S&P Global

will help to drive growth.

The drop in confidence regarding future output was driven by falls across both the manufacturing and service sectors, with the respective net balances declining from +26% to +17% and +36% to +19%, respectively.

Companies anticipate no change to workforce numbers

Increased uncertainty around the outlook led Chinese companies to become more cautious with regards to their hiring plans. After forecasting a mild rise in employment during February (net balance of +7%), firms anticipate that workforce numbers will be unchanged over the next year, with both manufacturers and service providers recording a neutral net balance of 0%.

At the same time, investment intentions weakened in June. The net balance of firms projecting higher R&D spending slipped from +14% in February to a one-year low of +10% in June, while the net balance for capital expenditure edged down from +13% to +11%.

Staffing costs forecast to rise at slower rate

Although Chinese businesses continued to predict greater input costs in the year ahead, the staff costs net balance slipped from +24% in February to +12% in June. This was the lowest figure of the 12 nations for which comparable data are available. In contrast, firms projected a slightly stronger rise in non-staff costs (net balance of +22% in June, up from +20%).

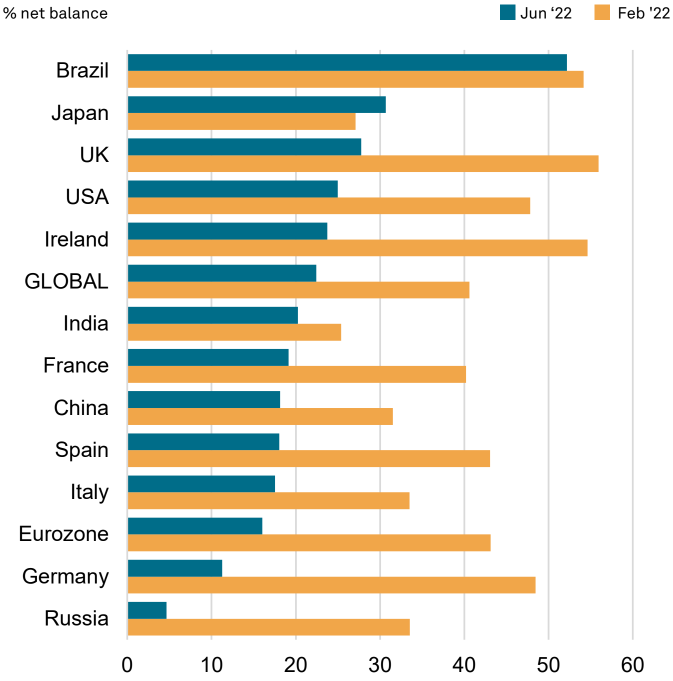
Higher operating expenses led companies to plan to lift their own charges over the next 12 months. That said, the respective net balance fell from +8% in February to +6% in June, to mark the lowest reading since October 2020.

Optimism around profitability weakens

In line with expectations that operating costs will increase more quickly than selling prices, expectations around future profitability weakened in June. Notably, the net balance of firms projecting higher profits fell from +17% in February to +6%, which was the lowest figure for two years.

Global Business Activity expectations

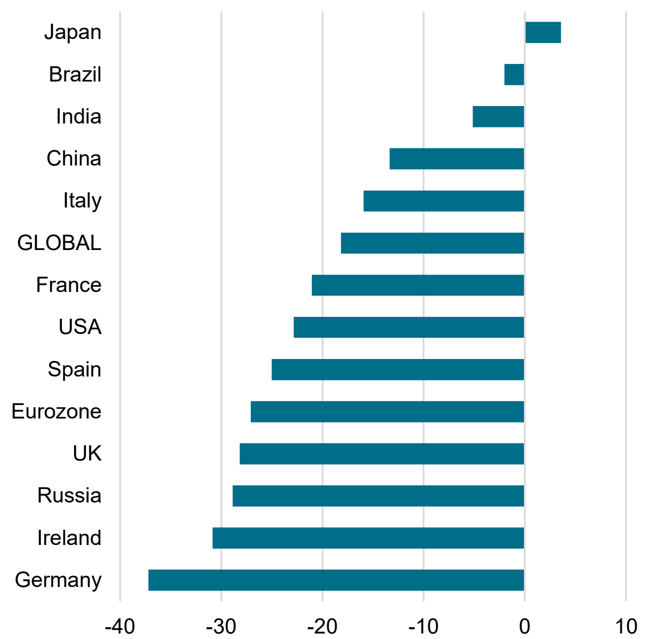
% net balance



Source: S&P Global.

Global Business Activity expectations

Change in % net balance, Jun '22 vs. Feb '22



Source: S&P Global.

Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global 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.

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 S&P Global 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 8,000 firms.

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