News Release

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S&P Global China Business Outlook

Business confidence rebounds to decade-high in China

Key findings

Optimism around future business activity rises as pandemic restrictions recede

Hiring intentions hit eight-year high

Inflationary pressures set to strengthen slightly

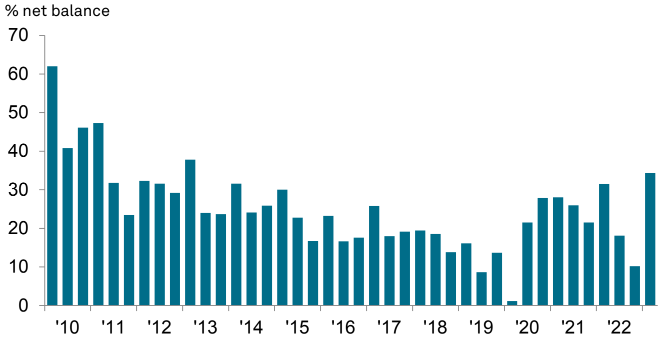
The recent roll back of COVID-19 containment measures and return to more normal business conditions led to a marked rebound in business confidence across China during February, according to the latest S&P Global China Business Outlook survey. Optimism around the 12-month outlook for output rose notably from that seen last October to hit the highest level for ten years. Expectations regarding future employment and profitability also improved markedly at the start of 2023. At the same time, firms anticipate stronger increases in input costs and selling prices, but inflationary pressures are set to remain weak in the context of global data.

At +34% in February, the net balance of Chinese companies that forecast an expansion of output over the next year was up from +10% last October and showed a marked rebound in overall confidence. Notably, the reading was the best seen over the past ten years and among the highest since the survey began in October 2009. Sentiment in China was slightly stronger than the global average, which picked up to a one-year high of +32% in February.

Levels of confidence rebounded across both the manufacturing and service sectors. At +30% in February, up from +10% in October 2022, the net balance of goods producers projecting higher output was the highest for nine years. Furthermore, services companies were the most upbeat for 12 years, with the respective net balance rising from +10% to +38%.

The easing of pandemic-related restrictions and reduced disruption to operations were cited as key factors supporting optimism around future business

China Business Activity expectations



Source: S&P Global.
Data were collected 10-20 February 2023.

Comment

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

“The relaxation of COVID-19 restrictions at the end of 2022 led to a notable recovery in the mood of businesses in China, with optimism regarding output over the next year hitting the highest for a decade in February. At the same time, the net balance of firms planning to expand their staff numbers rebounded to an eight-year high and investment intentions also strengthened, as firms plan to gear up for stronger growth in 2023.

"The ongoing recovery in economic activity and reduced disruption to operations and supply chains were widely expected to drive growth, though firms also anticipate supportive state policies, increased tourism and new product releases to boost activity over the next year.

"On the inflation front, while firms projected stronger increases in input costs and selling prices compared to last October, upturns look set to remain mild, particularly when compared to inflation expectations across key export markets such as the eurozone, the US and Japan."

activity in the latest survey. These are in turn anticipated to drive further increases in sales and customer numbers, while firms also cited supportive state policies, greater tourism activity and new product development as potential drivers of growth over the next 12 months.

When assessing any threats around the outlook, businesses were often concerned over any lingering impacts the pandemic may have on operations, greater market competition, recruitment difficulties and rising costs. Uncertainty over the Russia-Ukraine war, adverse exchange rate movements and relatively subdued foreign demand were also mentioned as factors that could dampen performance.

Employment projections improve notably

Alongside the marked improvement in activity expectations, Chinese companies projected strong job creation over the year ahead. A net balance of +11% of businesses projected an increase to their headcounts over the next 12 months, up from just+2% in October 2022, and the highest reading for eight years.

Investment intentions also improved in February. The net balance of companies planning to increase capital expenditure rose from +9% last October to +15%, the highest since October 2021. At the same time, the net balance of firms anticipating greater R&D spending rose from +8% to a one-year high of +14% in February.

Firms anticipate stronger rises in costs

February data showed that Chinese companies expect input costs and output charges to increase further over the next 12 months. In terms of expenses, a net balance of +16% of firms projected higher staffing costs in February, up from +13% in October 2022 and the highest for a year. The net balance of firms expecting greater non-staff costs meanwhile increased from +10% to +16% in February.

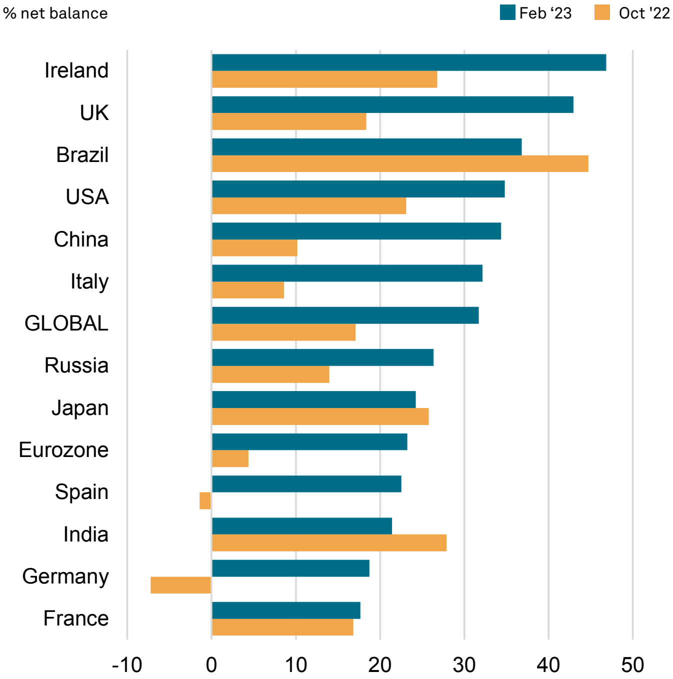
Turning to selling prices, a net balance of +7% of firms plan to raise their output charges over the next year. This was up from +3% in October and the highest figure for one year.

Although a greater proportion of firms forecast an upturn in expenses and output prices in the latest survey period, inflationary pressures in China look set to remain much weaker than seen on average globally.

Profitability forecasts rebound sharply

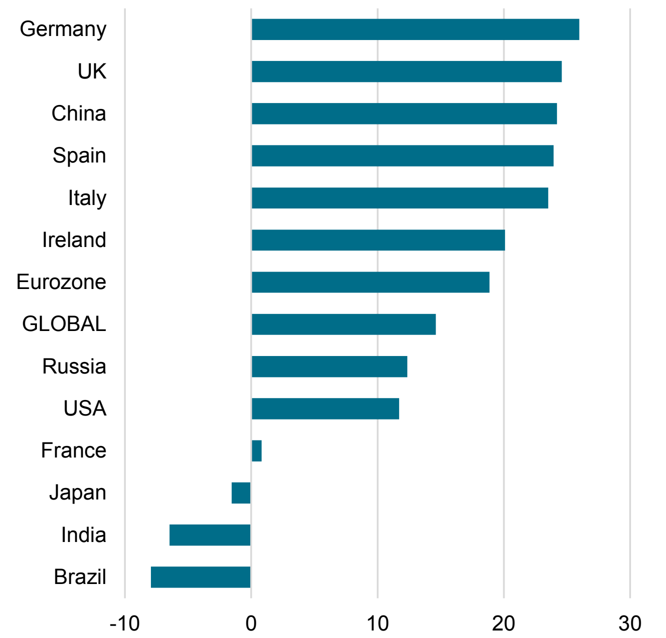
Stronger expectations around activity and demand led to a greater proportion of firms anticipating higher profits over the year ahead. At +21% in February, the respective net balance rose sharply from just +1% in October 2022 to signal the strongest optimism around future profitability for nine years.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Feb '23 vs. Oct '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*. 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.

** The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.*

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