

# News Release

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## S&P Global China Business Outlook

### Business confidence slips to one-year low in October

#### Key findings

Expectations around the year-ahead soften as global mood weakens

Cost pressures forecast to strengthen

Hiring intentions remain subdued and firms downwardly revise capex plans

Companies in China continued to express optimism towards the year-ahead outlook for output during October. However, the degree of positive sentiment slipped further below February's decade-high amid concerns over the broader economic climate both at home and overseas. Consequently, firms foresee only a marginal rise in staffing levels.

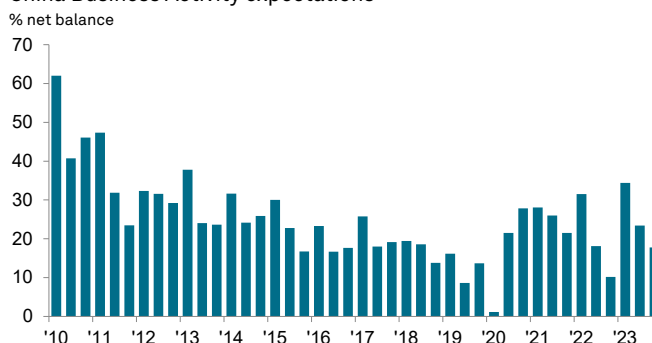
Cost pressures are meanwhile forecast to intensify, with companies anticipating stronger rises in both non-staff and staff costs. However, efforts to remain competitive limited pricing power and hikes in selling prices are set to remain muted, which in turn dampened profitability forecasts. As for investment, capex plans were revised down in October, but sentiment regarding research & development (R&D) improved slightly.

October data from the S&P Global China Business Outlook survey showed that a net balance of +18% of companies foresee growth of business activity over the course of the coming 12 months. The headline figure was down from +23% in June, however, to signal that optimism eased to its lowest in one year. The net balance for China was also weaker than the global and BRIC averages of +25% and +21%, respectively.

The dip in sentiment was driven by reduced optimism across the service sector. Notably, the net balance of service providers projecting growth of activity dropped from +31% in June to +21% in October. Services companies were more upbeat than manufacturers, however, with the latter recording a net balance of +14% (unchanged from June).

Businesses that anticipate output to rise over the coming year generally linked this to forecasts of

China Business Activity expectations



Source: S&P Global PMI.

Data were collected 12-23 October 2023.

#### Comment

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

*"The business mood across China softened during October, according to the latest S&P Global Business Outlook data. While firms were generally confident output would rise over the next 12 months amid forecasts of stronger economic conditions and supportive state policies, the overall degree of optimism was the lowest seen for one year. A weak global growth outlook for 2024 was frequently mentioned as having impacted expectations for the year ahead, while rising costs and uncertainty around the real estate sector were also cited.*

*"As a result, firms maintained a cautious approach to hiring plans and projected only a slight increase in employment over the next 12 months. At the same time, expectations of stronger cost pressures dampened sentiment regarding profitability, which fell to its lowest for one year. That said, inflation projections across China remained much weaker than those seen globally."*

stronger economic conditions, planned product releases and supportive state policies (including tax cuts and lower borrowing costs).

On the other hand, some firms took a more cautious stance when assessing the outlook, often due to projections of challenging market conditions both at home and abroad, rising costs, greater market competition and a sluggish real estate sector.

### Companies project stronger rise in costs

Input costs across China are forecast to rise further over the next 12 months. At +14% in October, the net balance of firms expecting higher non-staff costs was up from +11% in June, to indicate stronger cost projections overall. Companies also upwardly adjusted their staff cost forecasts, with the respective net balance up from +10% in June to +14%.

However, the figures for both non-staff and staff costs remained comfortably below those recorded globally (+27% and +37%, respectively).

Although Chinese firms anticipate stronger rises in expenses, the net balance of firms planning to raise their selling prices was unchanged at +3% in October. This was also much lower than the global figure (+21%).

### Profitability prospects weaken

Latest data signalled that a lower net balance of Chinese businesses foresee higher profits than that recorded in June amid expectations of stronger cost pressures. At +7% in October, the latest figure was down from +12% and pointed to the weakest degree of sentiment for one year.

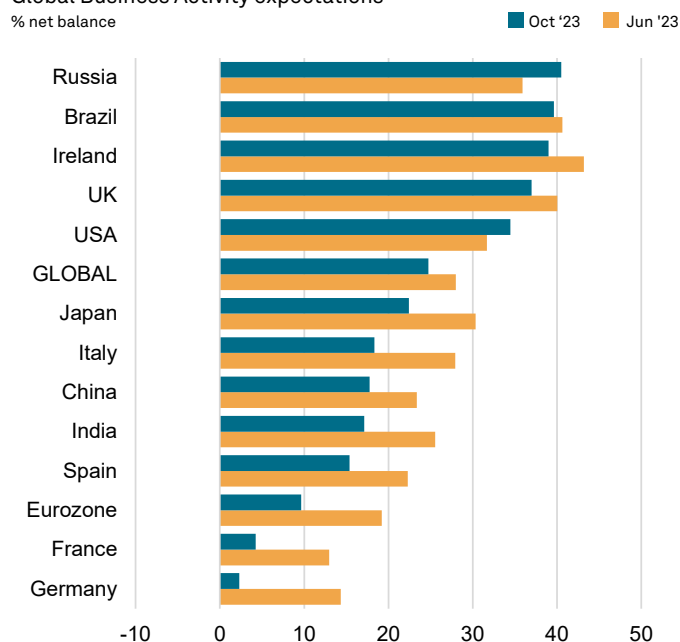
### Employment set to increase only slightly

Hiring intentions at Chinese companies remained subdued in October. At +2%, the net balance of firms projecting increased employment over the next year was down slightly from +3% in June and the joint-lowest since June 2022. The marginal downward revision was driven by forecasts of weaker job creation at service providers (+4%). In contrast, manufacturers anticipate stable staffing levels (0%) after projecting a slight fall in payrolls in June.

### Capex intentions slip to lowest since June 2020

When assessing investment plans for the year-ahead, intentions regarding capex weakened in October. The respective net balance slipped from +9% in June to +7%, the lowest reading since June 2020. Meanwhile, expectations around R&D spending improved slightly in October, with the net balance ticking up from +9% in June to +10%. The latter was also above that seen at the global level (+4%).

Global Business Activity expectations



Source: S&P Global PMI.

Global Business Activity expectations



Source: S&P Global PMI.

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