News Release

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S&P Global China Business Outlook

Business sentiment softens but remains strong in June

Key findings

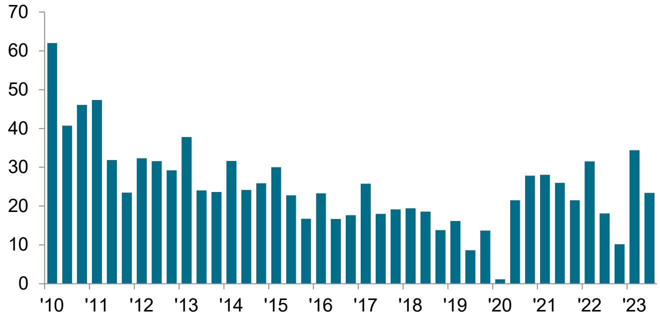
Confidence around future output moderates from ten-year high

Services companies more upbeat towards outlook than manufacturers

Inflation projections revised lower

China Business Activity expectations

% net balance



Source: S&P Global PMI.
Data were collected 12-22 June 2023.

The latest S&P Global China Business Outlook survey indicated that Chinese companies were highly upbeat regarding the 12-month outlook for output during June. This was despite the overall level of positive sentiment softening from the decade-high recorded in February. Expectations around job creation, profitability, capex and R&D spending also moderated in June, but remained positive overall. At the same time, inflationary pressures are forecast to subside, with firms anticipating softer rises in both input costs and selling prices.

The S&P Global China business activity net balance fell from a ten-year high of +34% in February to +23% in June, signalling a softer degree of optimism regarding future output. That said, the reading was the second-highest since February 2022. Business confidence also moderated slightly at the global level, but the respective net balance was higher than that recorded in China at +28%.

Manufacturers in China signalled a more marked weakening in confidence than service providers. Notably, the net balance of goods producers forecasting higher output dipped from +30% to +14%, while for service providers the net balance declined from +38% to +31%.

Firms expect further improvements in customer numbers and demand as the economy continues to recover from the impact of the pandemic. Other growth opportunities include supportive state policies (such as tax breaks), new product launches and improvements in supply chains.

However, some companies expressed concerns over

Comment

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

“The latest Business Outlook data show that Chinese businesses were upbeat about their prospects for the year ahead, despite overall optimism dipping from February's ten-year high. Firms anticipate a further boost to activity from the roll back of pandemic restrictions and return to more normal operating conditions, while supportive state policies and new product releases are also anticipated to drive growth.

"At the same time, inflationary pressure is set to cool, with firms projecting softer increases in both staff and non-staff costs. As a result, selling prices are also forecast to rise at a slower pace. Notably, input costs and output charges are anticipated to increase at much weaker rates than expected globally over the next 12 months.

"Hiring and investment plans were also trimmed compared to February. Employment growth is set to be driven by service providers, as manufacturers anticipate a slight fall in workforce numbers. This chimes with the sentiment regarding future output, as services companies are more upbeat of future increases in activity compared to goods producers."

relatively sluggish market conditions at home and overseas, rising costs, exchange rate fluctuations, squeezed customer budgets and tough market competition.

Firms foresee softer rise in employment

Softer expectations around activity led firms to trim their employment growth forecasts in June. A net balance of +3% of Chinese companies plan to expand their staffing levels over the next year, down from an eight-year high of +11% in February. Underlying data suggested that payroll growth will be driven by the service sector (+8%), as manufacturers anticipate a slight fall in headcounts (-3%).

Investment plans were also downgraded midway through the year. The net balance of Chinese companies looking to raise their capital expenditure, which includes spending on IT, vehicles, premises, land and equipment, slipped from +15% in February to +9% in the latest survey. At the same time, the net balance of firms intending to invest more in research and development slipped from a one-year high of +14% in February to +9%.

Cost pressures projected to ease

Companies in China expect further increases in staff costs over the next 12 months, with the respective net balance posting +10% in June. However, this was down from a reading of +16% in February and well below the global average (+36%).

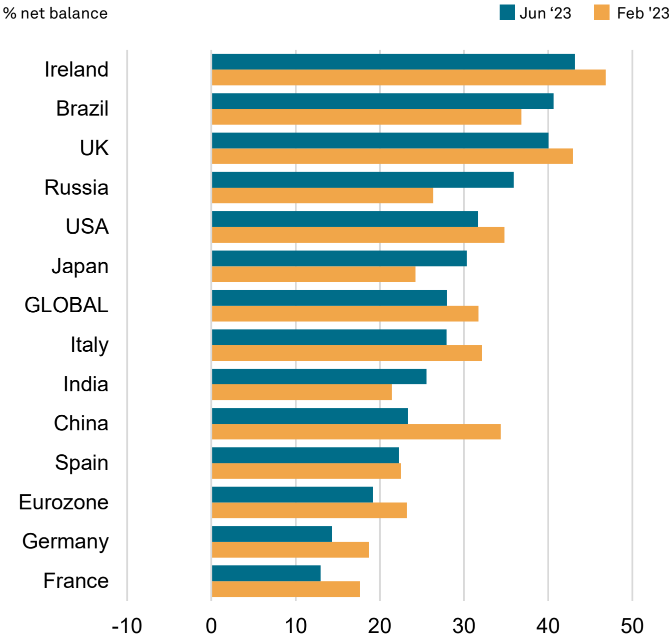
There was also a downward revision to non-staff cost projections, with the net balance of firms forecasting an increase dipping from +16% to +11% in June. This was also comfortably below the global average of +24%.

In line with the trend seen for costs, Chinese companies anticipate a softer increase in selling prices over the year ahead. The respective net balance fell from a one-year high of +7% in February to +3% in June. This figure was below the series average and the global reading (+21%).

Corporate earnings forecast to expand

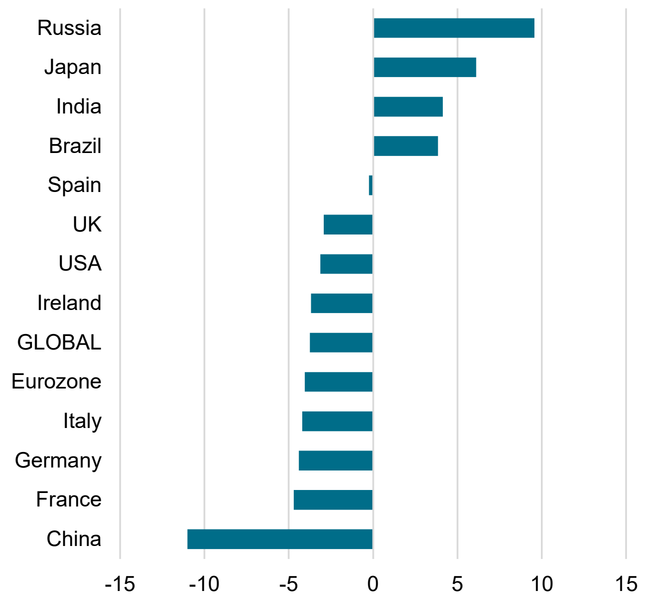
Chinese companies foresee profitability growth in the coming year, though the overall level of sentiment softened from February. The respective net balance fell from a nine-year high of +21% to +12% in June, but was nevertheless among the highest readings seen since early 2017.

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

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



Source: S&P Global PMI.
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.*

Contact

Annabel Fiddes
Economics Associate Director
T: +44 149 146 1010
E: annabel.fiddes@spglobal.com

SungHa Park
Corporate Communications
T: +82 2 6001 3128
E: sungha.park@spglobal.com

Chris Williamson
Chief Business Economist
T: +44-20-7260-2329
M: +44-779-5555-061
E: chris.williamson@spglobal.com

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