News Release

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S&P Global China Business Outlook

Business confidence in China weakens again in October

Key findings

Optimism around future business activity slips to near-record low

Non-staff costs forecast to rise at notably weaker pace

Investment intentions soften, employment set to rise only slightly

The COVID-19 pandemic, and the potential for further outbreaks and restrictions, remained a key concern for Chinese companies when considering the business outlook in October. Overall, firms' confidence regarding output over the next 12 months slipped to its third-lowest since the survey began 13 years ago. As a result, companies anticipate only a slight expansion of staffing levels over the next year, while investment plans were scaled back. Although prices are forecast to rise further, both non-staff cost and output charge inflation expectations moderated since June.

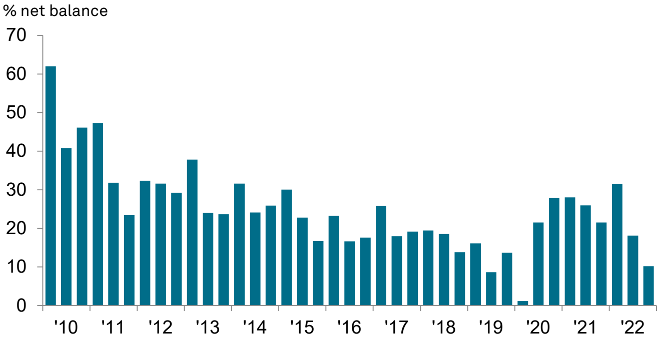
The net balance of Chinese businesses that anticipate increased output over the next year fell for the second survey period in a row, declining from +18% in June to +10% in October. This marked the weakest level of sentiment since the initial wave of the pandemic in February 2020, and was the third-lowest reading on record. Notably, optimism in China was below the global average (net balance of +17%) and the weakest of the BRIC nations.

The net balance of firms forecasting growth fell across both the manufacturing and service sectors in October, from +17% to +10% and +19% to +10% respectively.

Business confidence was dampened by worries over COVID-19, and the impact of any potential outbreaks and containment measures on activity, supply and demand. Firms also expressed concerns over the Ukraine war, tough market competition, the real estate sector and exchange rate movements.

Chinese businesses that projected higher output over the year ahead often hoped that the pandemic situation will improve and drive a strong economic recovery.

China Business Activity expectations



Source: S&P Global.
Data were collected 12-21 October 2022.

Comment

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

"While Chinese firms were generally upbeat that output would rise over the coming year, the degree of optimism slipped for the second survey period in a row and was the weakest since the initial pandemic wave in early-2020. Chinese businesses were also the least upbeat of all BRIC nations.

"Uncertainty over how long it will take to fully contain the COVID-19 virus, and disruption to operations and demand from any further outbreaks and subsequent restrictions, was a key factor weighing on growth projections. This fed through to relatively subdued expectations in terms of employment, which is forecast to rise only slightly, and investment intentions for the year ahead.

"At the same time, companies in China foresee the weakest inflationary pressures of all 12 regions covered by the survey, with firms anticipating a softer rise in non-staff costs in particular. "

Supportive state policies, increased investment in product development and lower interest rates were also cited as factors that could support growth in the coming 12 months.

Employment forecast to rise slightly

Relatively subdued confidence regarding the business outlook meant that Chinese firms expected only a mild increase in employment. A net balance of just +2% of companies foresee higher staffing levels, though this marked an improvement from projections in June, when firms anticipated no change to workforce numbers.

Investment intentions weakened slightly in October, with the net balance of firms planning to raise R&D spending falling to its lowest since June 2020 (+8%). The net balance of businesses planning to increase capital expenditure meanwhile edged down to the lowest since June 2021 (+9%).

Firms project softer increases in non-staff costs and selling prices

Chinese businesses anticipate further increases in input costs and output charges over the next 12 months. That said, the net balance of firms projecting higher non-staff costs fell notably from +22% in June to +10% in October, which was the lowest reading since June 2017. The net balance of companies that foresaw greater staff costs was meanwhile little-changed (+13%, up fractionally from +12%).

The rate of selling price inflation across China is also set to ease over the year ahead, with the net balance of firms planning to hike their charges falling from +6% in June to +3% (its lowest for two years).

Furthermore, Chinese companies anticipate the weakest inflationary pressures of all 12 monitored regions covered by the survey.

Companies expect little-change to profits

Companies across China anticipate that profitability will be broadly unchanged over the next year. At +1%, the respective net balance fell from +6% in June to the lowest since the initial wave of the pandemic in February 2020. While pessimists exceeded optimists in the manufacturing sector (net balance -2%), confidence eased notably in the service sector (+3%, down from +9%).

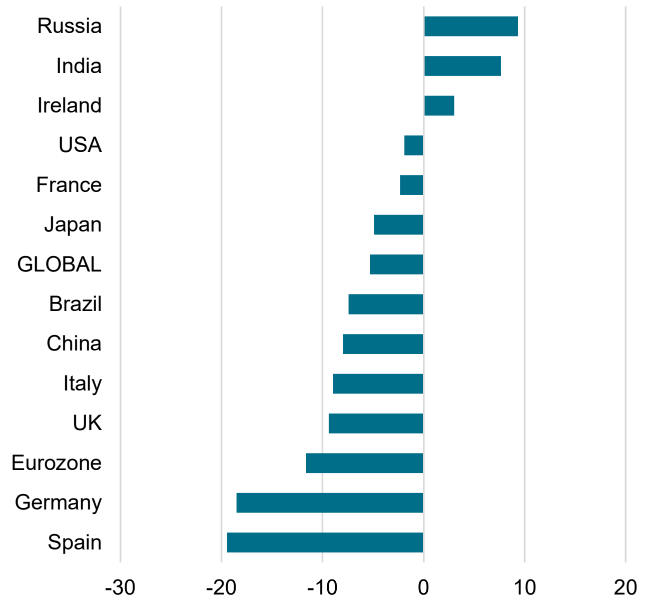
Global Business Activity expectations

% net balance

Source: S&P Global.

Global Business Activity expectations

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

Contact

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

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
E: joanna.vickers@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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