

Caixin China General Services PMI™

Growth of Chinese business activity eases slightly in February

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled a further strong rise in overall Chinese business activity in February, despite the pace of expansion softening since January. At 53.3 in February, the Composite Output Index fell only slightly from a seven-year record of 53.7 at the start of the year.

Activity continued to expand across both the manufacturing and service sectors in China during February, albeit at weaker rates than recorded at the beginning of the year. Nonetheless, growth in services activity held close to January's 68-month record and remained solid overall, as shown by the seasonally adjusted Caixin China General Services Business Activity Index declining only slightly from 54.7 to 54.2 in February. Meanwhile, manufacturing output increased at a pace that, though modest, was the second-fastest seen in the past year.

While manufacturers registered a slightly stronger increase in new orders midway through the first quarter, growth in new business placed at services companies softened slightly. Nonetheless, sales rose solidly across the service sector overall, with a number of firms commenting that greater efforts to secure new clients and new projects had lifted sales. At the composite level, however, growth in new work edged down for the second month in a row.

Sustained job creation at service providers largely offset a decline in manufacturing headcounts during February, leaving overall employment little-changed from the previous month. Employment rose modestly at services companies, amid reports that rising business requirements had led firms to hire additional workers. In contrast, goods producers cut their payrolls for the fifty-second month running, albeit only slightly.

While manufacturers continued to report higher backlogs of work in February, the level of work-in-hand (but not yet completed) was broadly unchanged across the service sector. However, the rate of accumulation signalled by goods producers eased to the weakest in five months. Overall, composite unfinished business rose at a marginal pace that was the slowest since last September.

Chinese companies continued to report higher input costs in the latest survey period. The rate of input price inflation registered at manufacturing companies was sharp overall, despite softening to a seven-month low. Meanwhile, service providers saw a solid rise in cost burdens despite the pace of inflation easing from January's 69-month record. Higher input prices were generally linked to greater costs for food, fuel, raw materials and salaries. However, softer rises across both sectors led composite input prices to increase at the slowest rate for six months.

Although cost burdens continued to rise strongly, services companies raised their charges at a modest pace that was only slightly stronger than that recorded in January. Manufacturers meanwhile increased their selling prices at a marginally quicker, albeit still modest, rate. The pace of composite output charge inflation therefore accelerated slightly in February, but was moderate overall.

Optimism towards the 12-month business outlook strengthened across both monitored sectors in February, with the highest level of positive sentiment registered across services companies. Nonetheless, confidence at manufacturers was at an 11-month high, which led to overall business expectations to be at their most positive since last June.

Key points

- Softer increases in activity across both the manufacturing and service sectors
- New order growth slows at services companies, but picks up at manufacturers
- Input price inflation subsides

Comment

Commenting on the China General Services PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

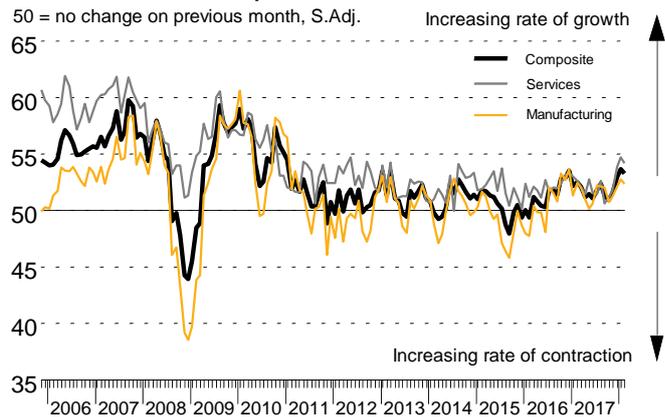
"The Caixin China General Services Business Activity Index came in at 54.2 for February, dipping 0.5 points from the previous month's high. A drop in the new business index was most obvious, reflecting a cooling of strong demand for the services industry. Under those conditions, the input prices index declined from the previous month's high, but the index for prices charged unexpectedly moved up, indicating the profitability of services business was moving in a positive

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direction. Along with this, the future output expectations index (reflecting services' expectations for the next 12 months) saw an increase.

"The Caixin integrated output index came in at 53.3 for February, down from the previous month's high, as manufacturing output and services business activity indices declined from the previous month. But manufacturing demand still remained stable, service industry prices rose towards convergence, and the stable condition of the macro economy didn't waver."

Caixin China Output PMI



Sources: IHS Markit, Caixin

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Notes to Editors:

The Caixin China General Services PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index™ (PMI™) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Historical data relating to the underlying (unadjusted) numbers and seasonally adjusted series are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

About Caixin:

Caixin Media is China's leading media group dedicated to providing financial and business news through periodicals, online content, mobile applications, conferences, books and TV/video programs.

Caixin Insight Group is a high-end financial data and analysis platform. The group encompasses the monthly Caixin China Purchasing Managers' Index™, components of which include the Caixin China General Manufacturing PMI™ and Caixin China General Services PMI™. These indexes are closely watched worldwide as reliable snapshots of China's economic health.

For more information, please visit www.caixin.com.

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