

Caixin China General Services PMI™

Including Caixin China Composite PMI™

Coronavirus outbreak leads to record drop in business activity

Key findings

Sharp decline in activity due to travel restrictions and company closures

Record falls in total new work and export sales

Outstanding work rises substantially

February PMI data signalled the first reduction in business activity across China's service sector on record due to restrictions implemented to contain the recent coronavirus outbreak. Firms across all sectors reported on the damaging effect that the virus was having on the economy via company closures and travel restrictions, with total new orders also falling at a record pace. Restrictions around travel also impacted firms' ability to source workers, leading a renewed fall in staff numbers. Consequently, backlogs of work rose at a substantial pace.

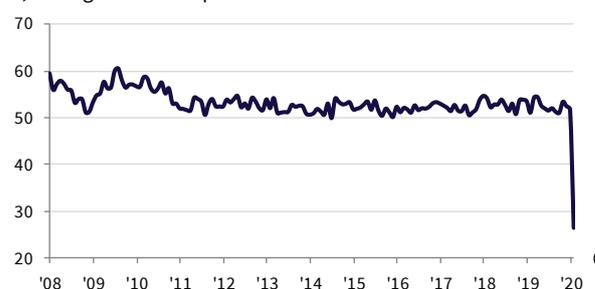
At the same time, business confidence slipped to a survey low in February. A number of panel members were more cautious with their forecasts due to a greater degree of market uncertainty arising from the coronavirus outbreak.

Adjusted for seasonal factors, including Chinese New Year, the headline Business Activity Index fell over 25 index points from 51.8 in January to 26.5 in February. This marked a sharp decline in business activity that was also the first recorded since the survey began over 14 years ago. The vast majority of panel members identified the outbreak of the coronavirus as the key driver of reduced activity, with firms facing extended company closures after the Chinese New Year and strict travel restrictions.

Consequently, total new business also fell substantially during February, with the pace of decline the fastest in the series history. Demand softened both at home and abroad, with new export work falling markedly amid reports of client cancellations and limited travel.

The coronavirus outbreak also impacted labour supply in February, as travel restrictions resulted in many firms being unable to fill roles. Although falling only modestly, the rate at

Caixin China General Services Business Activity Index
sa, >50 = growth since previous month



Sources: Caixin, IHS Markit.

which employment fell was the most severe since the survey began in late 2005.

A fall in the availability of workers and company closures led to a solid and accelerated increase in backlogs of work.

Reduced operational requirements and weaker demand for inputs underpinned a marked fall in operating expenses that was the quickest registered since data collection started over 14 years ago.

Average selling prices were meanwhile cut for the third month running, and at a faster rate. Though modest, the pace of discounting was in fact the steepest on record, with a number of firms lowering their charges as part of efforts to secure new orders.

Uncertainty relating to the coronavirus outbreak weighed on business confidence in February. Notably, the degree of optimism was only modest, having slipped to a survey low.

Caixin China Composite PMI™

Chinese output falls at record pace as companies shutdown in face of coronavirus outbreak

Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The China Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

The Composite Output Index signalled the sharpest decline in total Chinese business activity on record in February, as company closures and travel restrictions were put in place due to the coronavirus outbreak.

Composite new orders and employment also fell at the quickest rates in the series history. A lack of available workers and reduced capacity meanwhile led to a sharp increase in the amount of backlogged work across Chinese firms.

Prices data highlighted divergent trends, with costs rising modestly at goods producers but falling substantially at services firms.

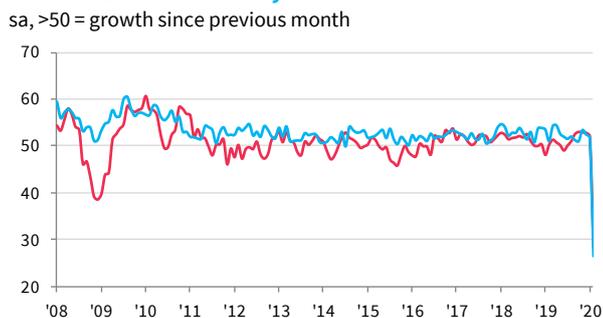
Business confidence regarding the year ahead rose to a five-year high at manufacturers due to hopes that market conditions will recover. However, services firms were the least confident since the series began in late 2005.

Caixin China Composite Output Index



Sources: Caixin, IHS Markit, NBS.

Manufacturing Output Index Services Business Activity Index



Sources: Caixin, IHS Markit.

Comment

Commenting on the China General Services and Composite PMI data, Dr. Zhengsheng Zhong, Chairman and Chief Economist at CEBM Group said:

"The Caixin China General Services Business Activity Index fell to 26.5 in February, about half the reading of the previous month, marking its first drop into contractionary territory since the survey launched in November 2005. Stagnating consumption amid the coronavirus epidemic has had a great impact on the service sector.

1) Demand for services shrank sharply. Both the gauges for total new business and new export business dropped to their lowest levels on record.

2) It was difficult for service providers to recruit workers, and backlogs of work climbed. The drop in the employment gauge was relatively small, but its February reading marked the lowest point on record. The measure for outstanding orders surged to a record high. Supply capacity across the service sector was insufficient amid restrictions on the movement of people.

3) The measure for input costs dropped at a steeper rate than that for prices companies charged customers, because of a sharp decline in supply capacity.

4) Business confidence also fell to a record low. Although policies have been introduced to provide tax and financing support for industries and small businesses heavily impacted by the epidemic, service companies were still concerned about uncertainties resulting from the epidemic.

"The Caixin China Composite Output Index dropped to 27.5 in February from 51.9 in the previous month. While the gauges for new orders, new export orders and employment all weakened to their lowest levels on record, the gauge for backlogs of work rose to a record high. The decline in input costs was greater than that in output prices because upstream industries' supply capacity was less affected.

"The coronavirus epidemic has obviously impacted China's economy. It is necessary to pay attention to the divergence of business sentiment between the manufacturing and the service sectors. While recent supportive policies for manufacturing, small businesses and industries heavily affected by the epidemic have had a more obvious effect on the manufacturing sector, it is more difficult for service companies to make up their cash flow losses."

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Methodology

The Caixin China General Services PMI™ is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. For the purposes of this report, China is defined as mainland China, excluding Hong Kong SAR, Macao SAR and Taiwan.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For more information on the survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

February data were collected 12-21 February 2020. The response rate for February was not affected by the widespread company closures in place due to the Covid-19 outbreak and remained in excess of 70%.

Data collection began in November 2005.

About Caixin

Caixin is an all-in-one media group dedicated to providing financial and business news, data and information. Its multiple platforms cover quality news in both Chinese and English. Caixin Insight Group is a high-end financial research, data and service platform. It aims to be the builder of China's financial infrastructure in the new economic era.

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

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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