

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Services activity growth eases notably in January

China's service sector expanded at a softer rate at the start of 2021, with companies signalling the weakest increase in business activity for nine months. Concurrently, the total amount of new work rose at the softest rate since last August, partly due to a slower increase in export sales, amid reports that customer demand was dampened by the ongoing coronavirus disease 2019 (COVID-19) pandemic. On the employment front, staffing levels rose only slightly during January. Input costs meanwhile increased at a sharper pace, but prices charged inflation eased to a modest rate.

The headline seasonally adjusted Business Activity Index dipped from 56.3 in December to 52.0 in January, to signal a modest expansion of Chinese business activity. Notably, the reading pointed to a further loss of momentum since November and was the slowest rate of growth recorded over the current nine-month period of expansion.

In line with the trend seen for business activity, total new work received by Chinese services companies expanded at a softer rate in January. Though strong, the latest upturn in sales was the slowest since last August. At the same time, new orders from overseas increased at the weakest pace for three months. According to panel members, higher sales were driven by a further recovery of customer demand and new client wins. However, there were also reports that the recent rise in virus cases globally had weighed on new work at the start of 2021.

Services companies in China added to their staffing levels for the sixth month running in January. That said, the rate of job creation eased further from November's more than decade-high and was only marginal.

A combination of softer-than-expected sales growth and increased workforce numbers enabled companies to work through outstanding business. Backlogs of work have now fallen in each of the past three months, though the rate of depletion remained mild.

Reports of higher costs for labour, raw materials and transportation pushed average operating expenses higher at the start of the year. Notably, the rate of cost inflation quickened to the second-sharpest since April 2012 (after November 2020).

Prices charged by services companies meanwhile rose at a modest pace that was the slowest seen for three months. Survey respondents often mentioned that attempts to pass on higher cost burdens to clients were restricted by efforts to stimulate sales.

Although business confidence regarding the 12-month outlook for activity remained strong in January, the degree of positive sentiment weakened since December. Notably, the level of optimism was the lowest recorded since last September. Firms widely expect customer demand to recover and activity levels to expand once the COVID-19 pandemic comes to an end. However, uncertainty over the trajectory of the virus weighed on overall confidence.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

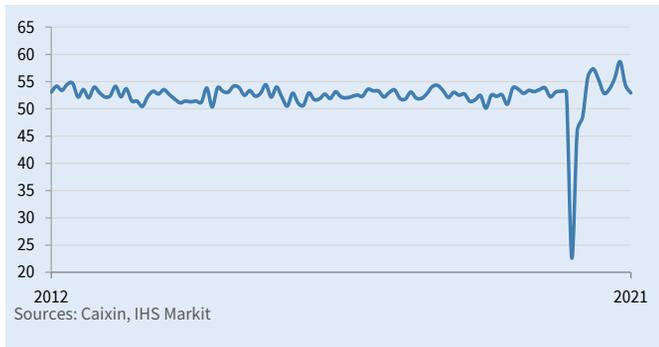
Business activity expands only modestly amid weaker upturn in sales

Staffing levels increase at slower rate

Input cost inflation accelerates to second-sharpest since early-2012

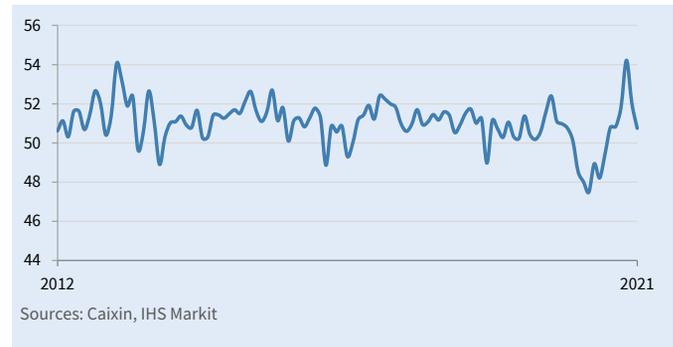
New Business Index

sa, >50 = growth since previous month



Employment Index

sa, >50 = growth since previous month



Commenting on the China General Services PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

"In January, the Caixin China General Services Business Activity Index came in at 52, down from 56.3 the previous month. The January reading was the lowest in nine months. The services sector's post-epidemic recovery continued, but at a much slower pace.

1. Both supply and demand in the services sector continued to expand, but at a slower pace. The gauges for business activity, total new business and new export business all fell for the second straight month. In January, the gauges for total new business and new export orders were the lowest in five months and three months, respectively. Some surveyed enterprises said the services market continued to recover, while many said the market had been hurt by the resurgence of the Covid-19 pandemic.

2. Improvement in the labor market for services also lost momentum. Service providers still had incentives to expand hiring, but the expansion was limited overall. The measure for

employment fell to the lowest in six months, though it remained in positive territory. The combined effects of the limited expansion in demand and marginal improvement in employment reduced service enterprises' outstanding workload. In January, the gauge for outstanding business dropped for the fourth month in a row.

3. The gauge for input costs remained high, while prices charged by service enterprises rose modestly. The rise in raw material prices, as well as the increase in labor and transportation costs, contributed to a sharp increase in input costs. The gauge for input costs rose to the second-highest level since April 2012. Despite these rising costs, service enterprises for the most part did not raise prices for their customers given the selling pressure. The gauge for output prices came down from a previous high, though it remained in expansionary territory.

4. Service providers stayed positive overall about the economic recovery, but they remained worried about the uncertainties brought on by the epidemic. In January, the measure for business expectations dropped to the lowest in four months."

Caixin China General Composite PMI™

Growth of Chinese business activity slips to nine-month low in January

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 posted 52.2 at the start of 2021, down from 55.8 in December, to signal only a modest rise in overall Chinese output. Notably, the rate of growth was the softest seen since the current period of expansion began last May, driven by slower rises in both manufacturing and services activity.

Growth of composite new business also weakened during January. Though strong overall, the rate of expansion was the least marked for nine months, with both goods producers and service providers noting slower increases in sales. At the same time, employment at the composite level grew only slightly, with job creation at services firms offsetting cuts at manufacturers.

The composite rate of input cost inflation accelerated to a 39-month high in January, with both monitored sectors recording sharp increases in expenses. As a result, prices charged by Chinese firms rose solidly.

Comment

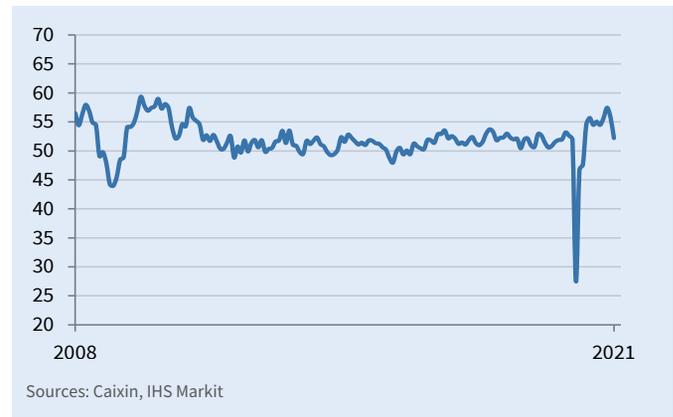
Commenting on the China General Composite PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

"The Caixin China Composite Output Index came in at 52.2 in January, down from 55.8 the previous month. Both supply and demand in the manufacturing and services sectors suffered marginal slowdowns. As a result, the labor market weakened, and employment in the manufacturing industry was worse than that in the services industry. It is noticeable that inflationary pressure soared, with the gauge for input costs reaching the highest level since October 2017.

"Overall, the manufacturing and services industries continued to recover in January, but the momentum of both supply and demand weakened, dragged by subdued overseas demand. The employment market was under pressure, especially in manufacturing. In addition, we should be careful about rising inflationary pressure in the coming months. This year, we need to keep an eye on the effectiveness of domestic epidemic prevention, and look at how to add momentum to the Chinese economy as uncertainties about overseas demand continue."

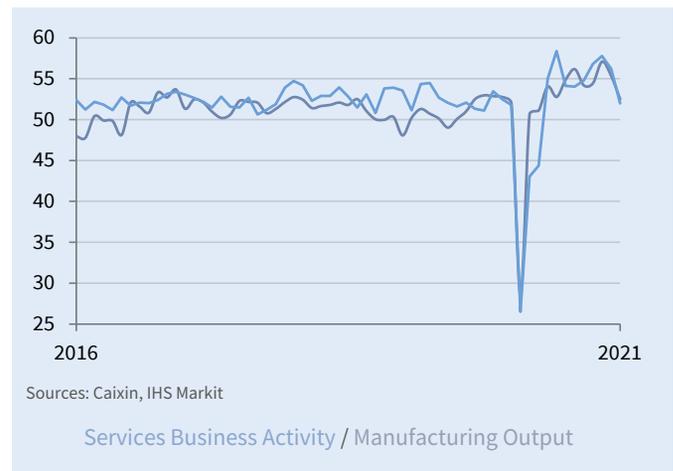
China General Composite Output Index

sa, >50 = growth since previous month



Index by sector

sa, >50 = growth since previous month





Survey methodology

The Caixin China General Services PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private and state-owned services companies. 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

Data were collected 11-20 January 2021.

Data were first collected November 2005.

About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

<https://ihsmarkit.com/products/pmi.html>

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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.

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