

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Pressure on service sector activity eases in December

Latest PMI data signalled a further fall in business activity across China's service sector at the end of 2022, as ongoing efforts to curb the spread of COVID-19 continued to disrupt operations and dampen demand. That said, both activity and new work fell at softer rates than in November. The level of outstanding business meanwhile expanded at the quickest pace since May, and firms registered a softer fall in employment. Inflationary pressures moderated further, with both input costs and prices charged rising at mild rates.

When assessing the 12-month outlook for business activity, firms expressed stronger optimism in December. Moreover, the level of positive sentiment improved to its highest for nearly a year-and-a-half as firms projected a strong recovery from the pandemic.

The seasonally adjusted headline Business Activity Index rose from a six-month low of 46.7 in November to 48.0 in December. While the sub-50.0 index reading indicated a fall in Chinese service sector activity for the fourth straight month, the rate of decline was only modest overall. Lower output was often linked to the impact of COVID-19 containment measures on operations, including temporary business closures, and customer demand. However, some companies indicated a relative improvement in conditions compared to November.

Overall new work also decreased for the fourth month running, albeit at a slower pace than in November. Restrictions around travel and the subsequent reduction in client numbers was mentioned by a number of firms. The pandemic also weighed on external demand, with new export business declining for the second time in three months.

Outstanding business meanwhile rose for the fifth month in a row, with some firms stating that they had been unable to work through backlogs due to COVID-19 restrictions. Though modest, the rate of accumulation was the quickest seen since May.

A combination of cost-reduction policies and voluntary leavers drove a further decline in service sector employment in December. Despite easing from November's record pace and being modest, the rate of job shedding was quicker than seen on average in 2022.

Relatively subdued demand conditions led to a further easing of price pressures at the end of the fourth quarter. The rate of input cost inflation moderated to a six-month low, with expenses rising marginally overall. Greater cost burdens were often attributed to higher staff, raw material and fuel costs. At the same time, companies raised their own charges only slightly and at the softest pace since August. There were reports that efforts to remain competitive had restricted firms' abilities to hike their fees in December.

Service providers were generally confident that business activity will be higher than current levels in 12 months' time. Moreover, the degree of optimism was the highest seen since July 2021. Companies that foresee higher output frequently mentioned that they expect the pandemic situation to improve, restrictions to ease, and operations and demand to recover.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

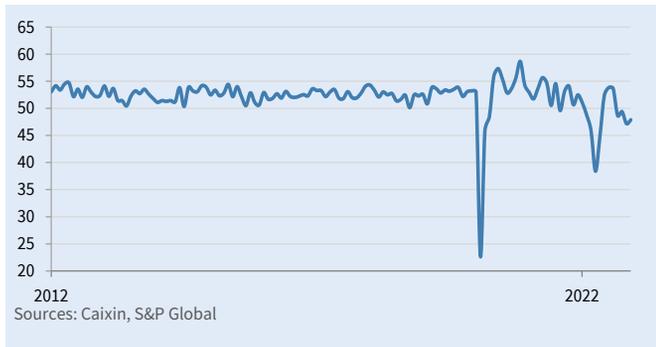
Softer falls in business activity and new work

Inflationary pressures ease further

Business confidence hits 17-month high

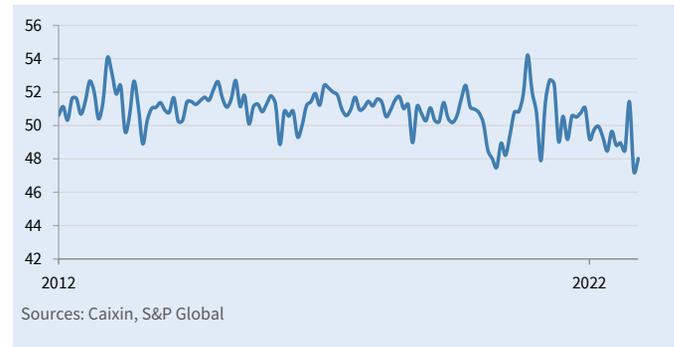
New Business Index

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:

“The Caixin China General Services Business Activity Index for December rose 1.3 points from the previous month to 48, remaining in contractionary territory for the fourth straight month, as Covid-19 outbreaks curtailed services activity across China.

“Both supply and demand shrank in the sector due to Covid outbreaks, with the gauges for business activity and total new business staying below 50 for the fourth straight month in December. Nonetheless, some service companies reported that business had improved since November. The pandemic also took a toll on overseas demand as the reading for new export orders slid back into contraction.

“Employment in the sector continued to deteriorate in December. Some workers left their jobs due to the pandemic, and some businesses cut staff to contain costs. The gauge for employment came in below 50 for the 11th time in the past 12 months. Some businesses suspended operations due to Covid, causing backlogs of work to continue to grow.

“Prices remained stable. The rising costs of raw materials, labor and energy pushed up service providers’ aggregate spending, but the increase remained limited, with the measure for input costs dropping slightly in expansionary territory. Given the sluggish demand stemming from the outbreaks, the bargaining power of service businesses remained limited on the prices they charged, which remained largely stable.

“Optimism improved significantly. Service providers expressed strong confidence in an economic recovery following the easing of Covid containment measures. The gauge for expectations for future activity rose nearly 4 points month-on-month, logging the joint-highest reading since May 2021.”



Caixin China General Composite PMI™

Softer fall in overall business activity in December

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 seasonally adjusted Composite Output Index picked up from 47.0 in November to 48.3 in December, to point to a reduction in overall Chinese business activity for the fourth straight month. The rate of decline eased to a modest pace, however, with softer falls in output seen across both the manufacturing and service sectors.

In contrast, total new business received by Chinese firms fell at a slightly quicker rate. This was due to a stronger fall at manufacturers, as sales declined at a slower pace at services companies. New export business also contracted further, and at the quickest pace since September.

Employment across China fell again, though the rate of job shedding eased from November. Input costs faced by Chinese firms rose at the slowest rate since September and only marginally. Prices charged were meanwhile stable, as discounting at manufacturers was offset by price hikes at services firms.

Comment

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

“The Caixin China General Composite PMI came in at 48.3 in December, up 1.3 points from the previous month and remaining in contractionary territory for the fourth straight month.

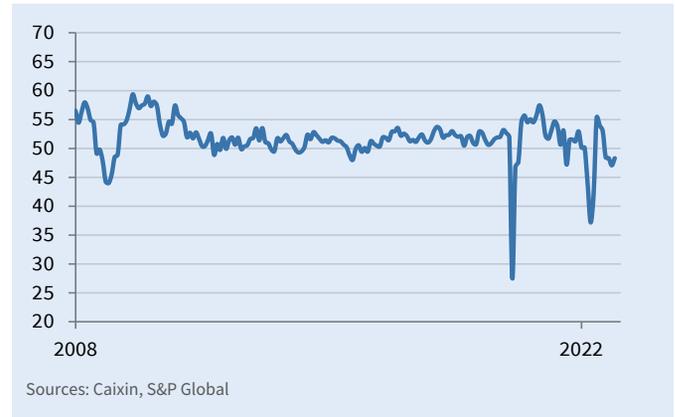
“Both manufacturing and services sectors’ supply and demand contracted due to the pandemic, with manufacturing demand taking a harder hit than in November. Overseas demand was weak, employment remained sluggish, but inflationary pressure was modest, and optimism among businesses significantly improved.

“Covid outbreaks rapidly spread across China in November, causing a number of macroeconomic indicators to fall sharply. On Dec. 7, China announced 10 new measures to further optimize Covid containment. In the short term, infections are expected to explode, which will disrupt production and everyday life. How to effectively coordinate Covid controls with economic and social development has once again become a crucial question.

“Under pressure from shrinking demand, weakening expectations and a supply shock, the annual Central Economic Work Conference stated that the foundation for an economic recovery is not solid. Policymakers have made it clear that priority must be given to the recovery and expansion of domestic consumption. This requires not only elevated social expectations and confidence in development, but various policies to work in tandem in stabilizing the job market and effectively increasing the disposable income of residents.”

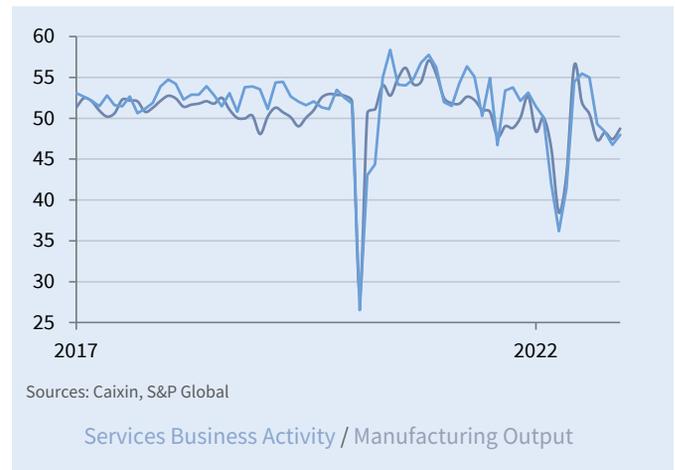
China General Composite Output Index

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 S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 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 06-15 December 2022.

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>.

About Caixin

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