

# Caixin China General Services PMI™

Business activity growth in China strengthens to one-year high in December

## Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled a solid upturn in Chinese business activity at the end of 2017. At 53.0, the Composite Output Index picked up from 51.6 in November to indicate the fastest rate of activity growth for a year.

Steeper increases in activity were registered across both the manufacturing and service sectors during December. Notably, services companies recorded the quickest expansion in activity since August 2014. This was shown by the seasonally adjusted Caixin China General Services Business Activity Index rising from 51.9 in November to 53.9 at the end of the year. Meanwhile, manufacturing output increased at a pace that, though modest, was the strongest seen for three months.

Improved growth of services activity was widely linked to greater volumes of new business. Latest data indicated that services companies saw the strongest upturn in new orders since May 2015, with around 14% of monitored companies noting an increase. Manufacturers also signalled a steeper rate of new order growth in December. Moreover, the rate of expansion was the strongest seen for four months, with a number of panellists commenting on greater client bases and new product launches. As a result, composite new orders rose at the quickest pace since January 2013.

Services companies continued to add to their payroll numbers at the end of the year amid reports of rising business requirements. That said, the rate of job creation was similar to that seen in November and moderate. Employment at Chinese manufacturers meanwhile remained on a downward trend in December, though the rate of job shedding was the least marked for nine months. Consequently, staffing levels at the composite level was broadly unchanged, as has been the case in each of the past five months.

December data pointed to little pressure on capacity at services companies, with backlogs of work falling for the fourth month in a row. However, the rate of backlog depletion was marginal, as has been the case throughout the current sequence of reduction. In contrast, outstanding work rose solidly at goods producers, which in turn underpinned a modest rise in unfinished business at the composite level.

Average input costs faced by services companies in China increased at a solid and accelerated rate in December. Furthermore, the rate of inflation was the joint-quickest since February 2013 (on par with March 2017). Raw materials, transportation and salaries were all cited as having gone up in price in the latest survey period. Cost burdens meanwhile rose sharply at manufacturing companies, despite the rate of inflation softening to a four-month low. At the composite level, input prices rose at a marked pace that was unchanged from November.

Greater input costs prompted service providers to raise their average charges again in December. That said, the rate of inflation was little-changed from the previous month and moderate overall. Factory gate prices increased solidly, despite the rate of inflation softening since November. Therefore, prices charged for manufactured goods and services overall rose at a moderate pace that was slightly weaker than in the previous month.

Business confidence towards the 12-month outlook for activity improved across both the manufacturing and service sectors at the end of the year. Services companies expressed the greatest degree of optimism since June, while sentiment at manufacturers picked up from November's joint-record low. However, business confidence remained at a historically-subdued level overall.

## Key points

- Solid increase in services activity accompanied by faster growth in manufacturing output
- Total new work rises to greatest extent in nearly five years
- Employment remains broadly stable

## Comment

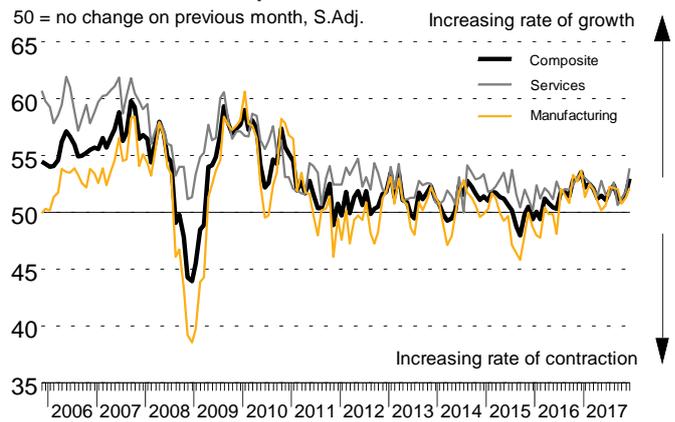
Commenting on the China General Services PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

*“The Caixin China General Services Business Activity Index rose 2.0 points from the previous month to 53.9 in December, the highest level since August 2014. The expansion in new business picked up for the second consecutive month. Prices charged increased at a slightly slower rate in December, while input prices rose at the joint-fastest pace since February 2013.”*

Continued...

*"The Caixin China Composite Output Index rose 1.4 points from November to 53.0 in December, with both manufacturing and service sectors seeing stronger rates of growth. The December readings of the Caixin PMI surveys also point to improving economic sentiment. Expansions in total new orders and new export business supported optimism among manufacturers and service providers towards the business outlook for next year. Although China's economic growth remains under downward pressure, it is still resilient. However, special attention should be paid to whether future policies will become tighter than expected."*

## 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](mailto: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](http://www.caixin.com).

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