

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector expands at softer rate at the end of 2020

Latest PMI data indicated that Chinese services activity growth slowed in December, but remained marked overall. New business also expanded at a softer pace, amid only a modest increase in new export sales. Business confidence meanwhile remained robust and improved to the highest since April 2011 due to hopes of a further rebound in global economic conditions. At the same time, firms continued to add to their payrolls, which helped to reduce levels of backlogged work. Prices data revealed a further sharp rise in input costs, which led firms to increase their output charges at the quickest rate since January 2008.

The headline seasonally adjusted Business Activity Index fell from 57.8 in November to 56.3 in December, to signal a further increase in service sector activity across China. Although not as quick as those recorded in the prior two months, the rate of expansion remained among the steepest recorded over the past decade, and marked a further recovery from the coronavirus disease 2019 (COVID-19) outbreak at the start of the year.

The softer rise in overall activity coincided with a slower expansion of total new work at the end of 2020. Although rising solidly overall, the latest increase in new business was the least marked since September. The slowdown occurred alongside a weaker upturn in foreign demand. Export sales rose modestly overall, after expanding at the quickest rate for over a year-and-a-half in November. Panel members indicated that the pandemic, and the recent resurgence of the virus in key export markets, continued to limit growth of overseas business.

December data meanwhile pointed to a second successive monthly rise in workforce numbers at Chinese service providers. The rate of job creation was mild overall, however, having slowed from November's more than decade-high.

At the same time, companies indicated that there was little pressure on operating capacities, as firms reduced their backlogs of work again at the end of the fourth quarter.

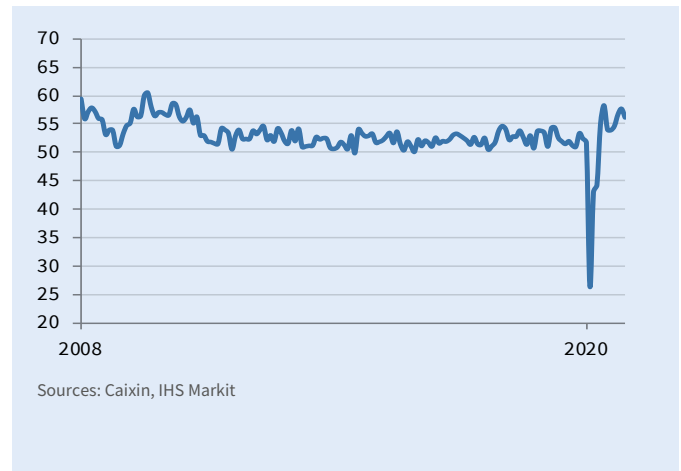
After increasing at the sharpest rate since August 2010 in November, input costs rose at a softer, but still substantial pace in December. Services companies often mentioned that higher staffing costs and raw material prices had pushed up expenses at the end of the year.

As firms faced a further marked rise in costs, prices charged increased further in December. Notably, the rate of inflation was the quickest recorded since the start of 2008 and solid.

Service sector firms generally expect activity levels to rise over the next year amid forecasts of stronger global economic conditions once the pandemic ends and through planned company expansions. Furthermore, the degree of optimism was the strongest since April 2011 and above the historical average.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

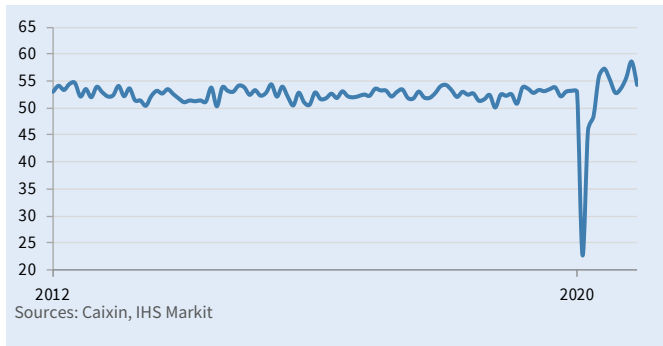
Business activity and new orders both increase at softest rates for three months

Optimism towards the year ahead edges up to highest since April 2011

Sharp rise in costs drives steepest increase in output charges for nearly 13 years

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 December, the Caixin China General Services Business Activity Index came in at 56.3, down from 57.8 the previous month, as the post-epidemic services recovery continued.

1. Supply and demand continued to expand in the services sector, though at a slightly slower pace than in the previous two months. Business activity and total new business both expanded for the eighth month in a row, as the post-epidemic services recovery remained strong. The expansion of overseas demand was moderate, as surveyed companies said that the pandemic restrained overseas demand.

2. Employment continued to improve. The employment gauge remained in positive territory for the fifth straight month as the market improved, though the expansion slowed, just like with the business activity index and the gauge for new business. As a result,

there was a further slight reduction in backlogs of work compared with the previous month.

3. Input costs and the prices charged by service providers both rose. The rise in costs of raw materials and employment continued to push up the gauge for input costs, which stayed in expansionary territory for the sixth straight month. The prices charged by service providers rose at the quickest pace since January 2008, with inflationary pressure becoming evident.

4. Entrepreneurs remained very confident about the economic outlook. The gauge for business expectations reached the highest since April 2011. A majority of surveyed service providers were confident that the epidemic was under control and the economy was recovering."

Caixin China General Composite PMI™

Business activity growth slows in December, but remains marked overall

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.

At 55.8 in December, the Composite Output Index fell from a more than ten-year high of 57.5 in November, but nonetheless signalled a further marked increase in total Chinese output. Sector data showed that softer, but still sharp, increases in output were recorded across both the manufacturing and service sectors.

New business at the composite level also expanded at a softer pace in December. Though solid, the rate of growth was the slowest seen for four months. Composite employment meanwhile expanded only marginally, with job creation at services companies helping to offset stagnant manufacturing staff numbers.

Composite input prices rose rapidly in December, with the rate of inflation the quickest seen for three years. As a result, output charges increased solidly and at the steepest rate since November 2016.

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 55.8 in December, down from 57.5 the previous month, but the index remained elevated. Both demand and supply in the manufacturing and services sectors continued to expand. Due to the drag from manufacturing employment, the overall improvement to the labor market was relatively limited. Both input and output prices rose further into expansionary territory. The gauge for future output expectations remained high.

"Overall, the epidemic's damage to the domestic economy further receded, and the manufacturing and services sectors continued to recover. Both supply and demand continued to improve, and overseas demand also increased. Looking ahead, we expect the post-epidemic economic recovery to continue for several months, and macroeconomic indicators will be stronger over the next six months due to the low bases in the first half of 2020. Entrepreneurs were confident about further improvement to the economy in the upcoming year. Meanwhile, we need to pay attention to the mounting pressure on costs brought by the increase in raw material prices and its adverse impact on employment, which is particularly important to figuring out how to exit the stimulus policies implemented during the epidemic."

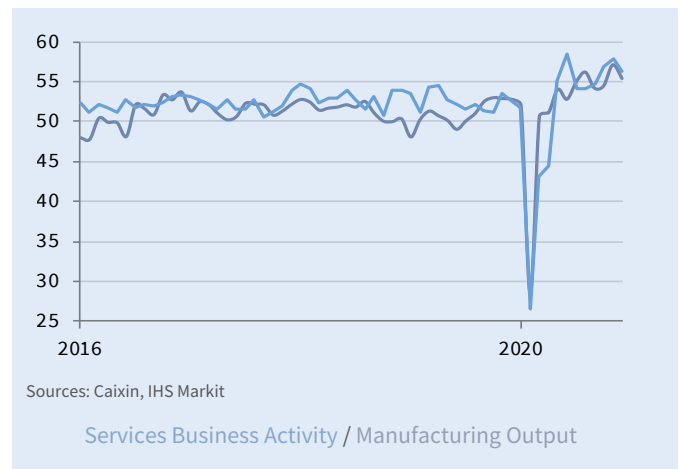
China General Composite Output Index

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 4-14 December 2020.

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

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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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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