

PMI

Caixin China
General Services
PMI Press Release

2022.01



Caixin China General Services PMI TM

Business activity growth slips to five-month low in January

China's service sector continued to expand at the start of 2022, but growth momentum slowed amid the renewed increase in COVID-19 cases and subsequent measures to stop the spread of the virus. Companies registered softer increases in both business activity and new orders during January. The latter was in part dampened by the fastest decline in new export business since October 2020. Companies meanwhile trimmed their staffing levels slightly and saw a further increase in backlogs of work. Prices data showed that average input costs rose at a slightly sharper rate than in December, while prices charged inflation also picked up.

Adjusted for seasonal factors, including Chinese New Year, the headline Business Activity Index fell from 53.1 in December to 51.4 in January, to signal a modest increase in services output. Notably, the rate of growth was the slowest seen in the current five-month sequence of expansion. Companies often mentioned that activity rose due to higher amounts of new business. However, others commented that the pandemic, and efforts to contain the virus, had weighed on overall growth.

Total new orders rose marginally at the start of 2022, with the upturn the second-slowest seen since sales returned to growth last September. The softer rise in new work was in part due to weaker external demand. New export orders fell for the first time in four months and at the quickest pace since October 2020. A number of companies mentioned that increased COVID-19 cases overseas had weighed on foreign demand.

Relatively subdued demand conditions and the non-replacement of voluntary leavers drove a renewed fall in service sector employment during January. Though only slight, it marked the first decline since August 2021.

Latest data indicated a slight easing of capacity pressures across services companies, as backlogs of work rose at a slower pace that was only marginal. This followed the quickest increase in unfinished workloads for 22 months during December. Panel members often commented that disruption due to the pandemic had hindered their ability to process and fulfil orders in a timely manner.

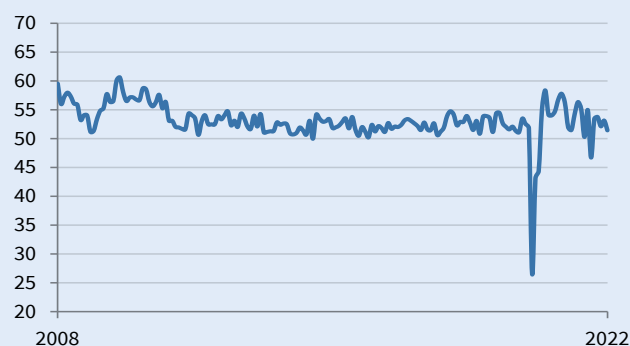
Chinese services companies signalled a sharp increase in average input costs during January, with the rate of inflation quickening slightly since December. Businesses stated that higher raw material and staff costs had pushed up expenses. There were also reports of increased expenditure on equipment and measures to help stop the spread of the virus.

Prices charged rose again in January. The rate of inflation was modest, despite accelerating to a three-month high. Firms that raised their fees generally commented on the pass-through of higher costs to customers.

Optimism towards the 12-month outlook for business activity remained strong at the start of the year. That said, the overall level of positive sentiment slipped to a 16-month low due to uncertainty over the trajectory of the virus, and how long it will take for global conditions to recover.

China General Services Business Activity Index

sa, >50 = growth since previous month



Sources: Caixin, IHS Markit

Key findings:

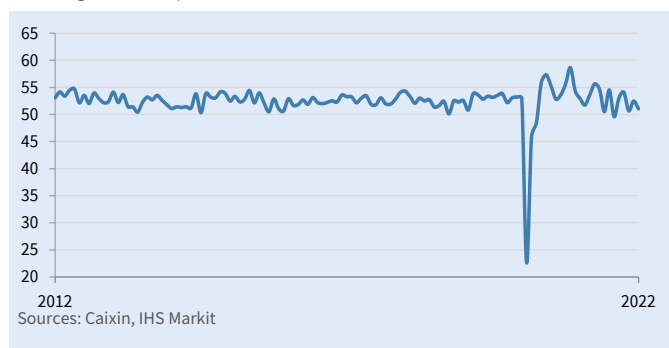
Slower increases in business activity and new orders

Export sales fall at quickest rate for 15 months

Inflationary pressures pick up slightly from December

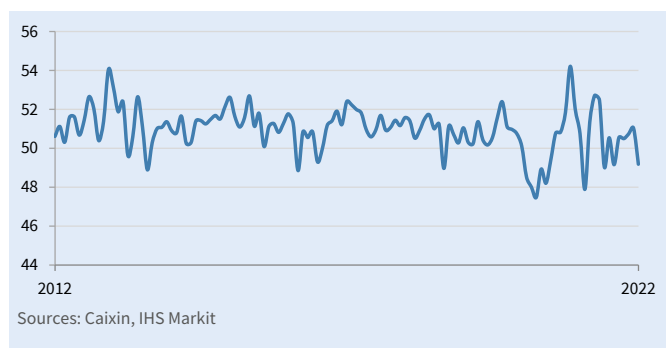
New Business Index

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 came in at 51.4 in January, down from 53.1 the previous month. The expansion of activity in the services sector slowed due to recent Covid-19 flare-ups in many regions across China."

"Both supply and demand in the services sector expanded in January, but at a slower pace. The gauges for business activity and total new orders remained in expansionary territory for five straight months, but each was more than one point lower than the previous month. External demand fell into contractionary territory in January amid the pandemic following three consecutive months of expansion. The gauge for new export orders in January was the lowest since October 2020."

"The job market for services shrank. The measure for employment fell into contractionary territory for the first time in five months. Market demand was weak. New hiring for vacant positions was insufficient. The labor market was subdued. Outstanding business increased marginally in January from the previous month, as

tightening epidemic control measures impacted production of the services sector."

"Input costs and prices charged increased, and service providers were under greater cost pressure. Neither gauge changed much from the previous month, but the gauge for input costs was apparently higher than the one for prices charged. Surveyed companies said high labor and raw material costs were the primary causes. Tightening epidemic control measures also increased service providers' operational costs."

"Businesses grew less optimistic. The gauge for future output expectations fell to its lowest in 16 months in January, though the figure remained in positive territory. That indicated that service enterprises remained concerned about the ongoing epidemic in China."



Caixin China General Composite PMI™

Overall business activity rises fractionally 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 seasonally adjusted Composite Output Index slipped from December's recent high of 53.0 to 50.1 in January. The reading, which was just above the neutral 50.0 threshold, was consistent with only a fractional increase in activity that was the slowest for five months. Sector data showed that a modest rise in services output helped to offset a renewed fall in manufacturing production.

Composite new work meanwhile fell slightly for the first time since last August, driven by a modest fall in new business at goods producers and slower growth of service sector order books. Total new export sales fell at the quickest rate for 20 months, with lower foreign demand seen across both monitored sectors.

Employment also fell, and at the quickest rate since February 2021. Cost pressures meanwhile picked up from December, with input costs rising solidly and selling price inflation accelerating to a three-month high.

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 fell to 50.1 in January from 53 the previous month. Demand and supply in both the manufacturing and services sectors were under pressure, with manufacturing production suffering a fall. Overseas demand largely declined. The labor market shrank. Input and output prices both continued to rise as their gauges increased marginally."

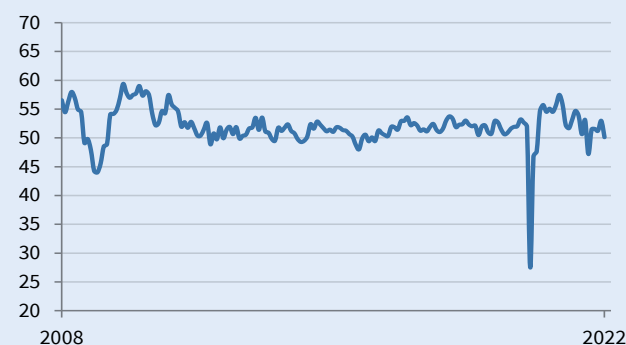
"To sum up, both the manufacturing and services sectors weakened in January. Activity in the manufacturing sector shrank. Domestic demand was subdued, and overseas demand largely declined. The labor market remained under pressure. The gauges for input and output prices were stable, while the high prices of some raw materials remained a concern. The level of optimism among service enterprises declined."

"In December and January, the resurgence of Covid-19 in several regions such as Xi'an and Beijing forced local governments to tighten epidemic control measures, which restricted production, transportation and sales of goods. It has become more evident that China's economy is straining under the triple pressures of contracting demand, supply shocks and weakening expectations."

"This year, policymakers should make stability their focus. They should prioritize improvements to employment and optimize the structure of the economy. The government should also enhance support for small and micro enterprises, lower the financing costs of businesses, enhance the predictability of policies and respond to market concerns in a timely manner."

China General Composite Output Index

sa, >50 = growth since previous month



Sources: Caixin, IHS Markit

Index by sector

sa, >50 = growth since previous month



Sources: Caixin, IHS Markit

Services Business Activity / Manufacturing Output



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 12-21 January 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

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.

Read more: <https://www.caixinglobal.com/index/>

For more information, please visit

www.caixin.com

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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2022 IHS Markit Ltd. All rights reserved.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

Contact

Dr. Wang Zhe

Senior Economist

Caixin Insight Group

T: +86-10-8590-5019

zhewang@caixin.com

Ma Ling

Brand and Communications

Caixin Insight Group

T: +86-10-8590-5204

lingma@caixin.com

Annabel Fiddes

Economics Associate Director

IHS Markit

T: +44 1491 461 010

annabel.fiddes@ihsmarkit.com

Joanna Vickers

Corporate Communications

IHS Markit

Telephone +44 207 260 2234

joanna.vickers@ihsmarkit.com