

Caixin China General Services PMI™

Chinese business activity expands at softer pace at start of 2019

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled higher Chinese business activity for the thirty-fifth month in a row in January. However, the rate of expansion softened since December, as shown by the Composite Output Index posting down from 52.2 at 50.9 in January.

On a sector basis, growth continued to be driven by the service sector, which saw activity expand solidly at the start of the year. Notably, the seasonally adjusted Caixin China General Services Business Activity Index was down only slightly from 53.9 in December to 53.6. In contrast, manufacturing companies signalled a relatively subdued trend, with output declining modestly in January.

Total new orders rose slightly in the latest survey period. Sector data signalled divergent trends, with a sustained and strong rise in new business across services companies contrasting with a reduction at manufacturers. Notably, service providers registered the fastest increase in new work for seven months.

January data pointed to an improved trend for exports, as overall new work from abroad increased for the first time in ten months. Encouragingly, both manufacturing and services firms registered higher export sales at the start of 2019. Furthermore, service providers recorded the steepest increase in export orders for over a year.

With activity levels rising solidly, services companies in China continued to add to their workforce numbers in January. Though marginal, the rate of job creation edged up to a three-month high. Manufacturing employment meanwhile remained on a downward trend, though the latest fall in staff numbers was the least marked since last April. At the composite level, payroll numbers stabilised following a seven-month sequence of decline.

The level of outstanding work continued to increase at Chinese firms during January, thereby extending the current trend to just under three years. That said, the rate of accumulation remained marginal. The upturn was largely driven by the manufacturing sector, which saw backlogs rise modestly, as services companies registered a slight decline.

Average input costs continued to rise at the composite level, though the rate of inflation eased to the weakest in three years. While services companies recorded the slowest increase in operating expenses since last May, manufacturing firms reported lower input prices for the second month running. A number of panellists mentioned that reduced raw material prices had helped to ease cost pressures.

Prices charged by Chinese companies meanwhile fell for the second month in a row. Output prices set by services firms rose at a fractional pace that was similar to those seen at the end of last year. In contrast, factory gate prices fell for the third successive month and at a quicker rate. A number of monitored firms mentioned that relatively subdued demand conditions and lower input costs had led them to cut their charges.

Businesses in China were generally optimistic that activity will be higher than current levels in 12 months' time. Notably, the overall level of positive sentiment improved to a five-month high. Services companies remained slightly more optimistic about the outlook than manufacturers, despite the latter seeing confidence improve to its highest since last May. New products and expansion into new markets were key factors linked to confidence in the latest survey period.

Key points

- Services activity continues to rise solidly, but manufacturing sector remains subdued
- New orders rise only slightly, despite rebound in export sales
- Overall employment stabilises

Comment

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

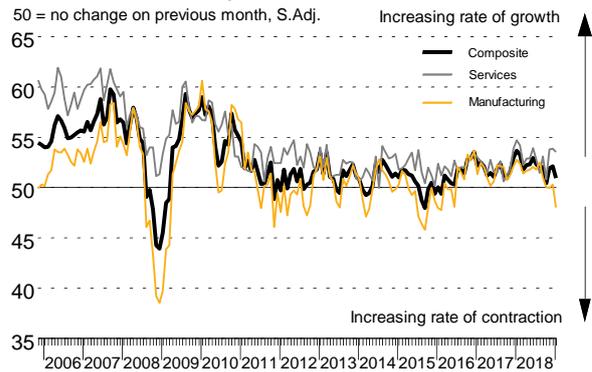
“The Caixin China General Services Business Activity Index came in at 53.6 in January, down slightly from the previous month. Demand for services remained solid as the increase in new business accelerated marginally. The sub-index of employment rose, pointing to a faster expansion of payroll number at service providers. The fall in the input prices sub-index was quicker than the decline seen for the prices charged

sub-index, which helped ease the pressure on companies' profit margins. However, the sub-index of business expectations declined from the previous month, indicating services providers' weakening confidence in the outlook of their operation for the coming 12 months.

"The Caixin China Composite Output Index fell from the previous month to 50.9 in January. The increase in new orders softened while new export business rose for the first time after dropping for nine consecutive months. That suggested the downward pressure on domestic demand was growing while external demand was holding up. The sub-index of employment rebounded to the break-even point of 50 after staying in contraction territory for seven straight months, underlining that government efforts to stabilize employment have taken effect. The sub-indices of input prices and output prices both went down, while the sub-index of future output, which reflects business confidence, edged up for the second month in a row.

"Overall, China's economic growth was weighed on by weakening domestic demand in January, although exports improved marginally as the Sino-U.S. trade negotiations flagged signs of progress. The effects of China's policies to support domestic demand and the development of the trade war between the country and the U.S. will remain key to the prospects of the Chinese economy. Given that the government has refrained from taking policies of strong stimulus, the downward trend of the economy may be hard to turn around for the time being."

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.

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.

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