

Embargoed until 0945 CST (0145 UTC) 5 February 2020

# Caixin China General Services PMI™

Including Caixin China Composite PMI™

## Business activity rises modestly at start of 2020

### Key findings

Business activity growth softens for second month running

Slower increase in total new work despite stronger rise in export sales

Employment broadly stagnates

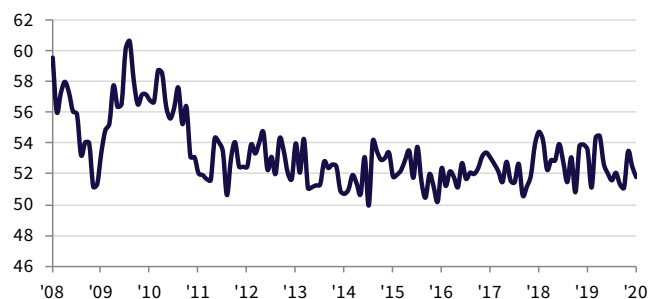
Chinese services companies saw business activity growth slow further in January, according to latest PMI data. Total new orders also expanded at a softer rate, in spite of a stronger increase in new work from abroad. At the same time, firms registered a sustained rise in operating expenses, while efforts to help contain costs contributed to a broad stagnation of employment across the sector. Prices charged by service providers meanwhile fell slightly due to efforts to boost sales. Nonetheless, firms recorded a stronger degree of optimism towards the year ahead, with business confidence improving to a 16-month high in January.

Adjusted for seasonal factors, including Chinese New Year, the headline Business Activity Index fell from 52.5 in December to 51.8 in January, to signal a softer rise in services activity at the start of the year. Notably, the rate of expansion was the softest recorded for three months.

Higher business activity was generally linked to new client wins and new projects. However, the rate of new order growth also weakened slightly during January. Although rising solidly, total new business rose at the slowest pace since last October. Underlying data indicated this was partly driven by a slower rise in domestic demand, as new export business increased at a quicker pace.

After expanding in each of the prior 15 months, workforce numbers across China's service sector were broadly unchanged in January. According to panellists, efforts to reduce operating costs had weighed on staff hiring at the

Caixin China General Services Business Activity Index  
sa, >50 = growth since previous month



Sources: Caixin, IHS Markit.

start of the year.

At the same time, firms indicated that there was only mild pressure on operating capacities. Outstanding business rose only slightly for the second month in a row.

Chinese service providers registered a softer increase in overall input costs at the start of the year. Furthermore, the rate of input price inflation was the weakest seen for 10 months. Higher cost burdens were often attributed to greater staff and fuel expenses.

Although input costs rose again, Chinese services companies cut their average selling prices during January. Though only slight, it was the second time charges had fallen in as many months, with some firms mentioning reducing their prices to help boost new order intakes.

Looking ahead, services companies were, on balance, confident that business activity would increase over the next year. Moreover, the degree of optimism was the highest seen for 16 months. Positive forecasts were attributed to planned company expansions, entry in to new markets, new product releases and signs of improving demand in the property sector.

## Caixin China Composite PMI™

### Slower expansion of both manufacturing and services output in January

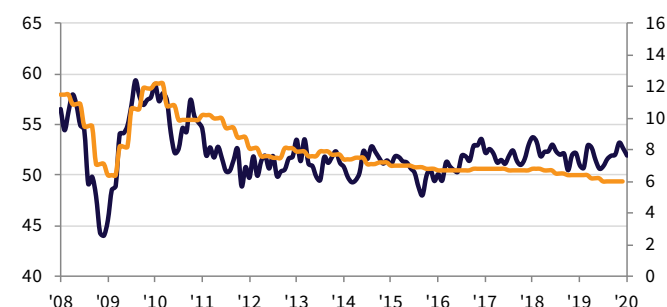
Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The China Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

At 51.9 in January, down from 52.6 in December, the Composite Output Index pointed to only a modest expansion of overall Chinese business activity at the start of the year. Notably, the pace of growth was the weakest recorded for four months. Concurrently, the rate of composite new order growth eased to a five-month low.

Chinese companies meanwhile cut their staffing levels for the first time since last October, albeit only slightly, which was often linked to efforts to contain costs. Operating expenses rose at the quickest pace for four months at the composite level, but output charges rose only slightly.

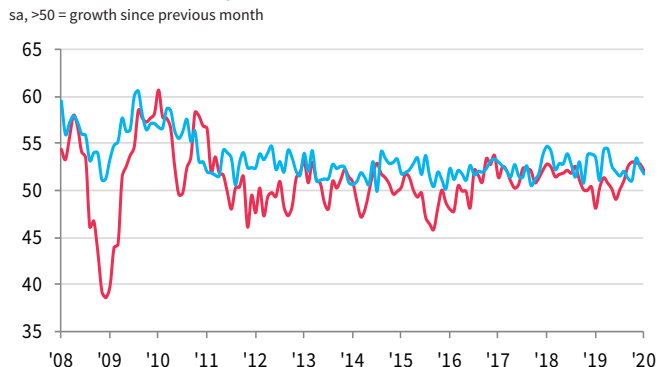
Business confidence meanwhile rebounded to a 20-month high in January, supported by stronger optimism across both sectors.

Caixin China Composite Output Index  
sa, >50 = growth since previous month



Sources: Caixin, IHS Markit.

Manufacturing Output Index  
Services Business Activity Index  
sa, >50 = growth since previous month



Sources: Caixin, IHS Markit.

## Comment

Commenting on the China General Services and Composite PMI data, Dr. Zhengsheng Zhong, Chairman and Chief Economist at CEBM Group said:

"The Caixin China General Services Business Activity Index fell to 51.8 in January from 52.5 in the month before, indicating that the services sector expanded at a slower pace as the manufacturing sector did.

- 1) The expansion in new business placed with service providers decelerated, indicating slowing growth in domestic demand. Expansion of new export business accelerated.
- 2) The employment gauge dropped to a level slightly above 50, marking the lowest point since September 2018. That means we need to pay attention to rising pressure on the job market. The measure for outstanding business remained in expansionary territory and edged up, reflecting that the expansion in service sector supply lagged behind that seen for demand.
- 3) Business confidence picked up to a level not seen since September 2018, thanks to the phase one trade deal sealed by China and the US.

4) The gauge for prices companies charged customers remained in negative territory despite inching up. The measure for input costs stayed in positive territory despite dropping mildly, indicating that cost pressures remained high.

"The Caixin China Composite Output Index dropped to 51.9 in January from 52.6 in the previous month. The gauges for new orders, output, employment, new export orders and backlogs of work all weakened, even as prices rose at a faster pace, and corporate sentiment was boosted by improving Sino-U.S. relations.

"China's economic recovery was not strong enough due to limited improvement in demand, and some companies didn't replenish inventories. As the current pneumonia epidemic is putting pressure on the economy, policymakers need to make efforts to ensure no major disruptions to improving business confidence."

## Survey methodology

The Caixin China General Services PMI™ is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. 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](mailto:economics@ihsmarkit.com).

### Survey dates and history

January 2020 data were collected 13-22 January 2020.

Data collection began in November 2005.

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