# Caixin China General Services PMI Press Release

2021.02

财新 Caixin

# Caixin China General Services PMI ™

## Modest increase in business activity during February

Business activity across China's service sector rose only modestly in February, with the rate of growth dipping to a ten-month low. The slowdown coincided with a softer increase in total new business, which was partly driven by a fresh decline in new export work. Panel members often mentioned that the coronavirus disease 2019 (COVID-19) pandemic, and a recent rise in cases globally, had dampened customer demand. At the same time, firms trimmed their staff numbers for the first time in seven months amid a further steep rise in operating costs. Companies expressed robust optimism towards the year ahead, however, with businesses widely anticipating customer demand to pick up once the pandemic ends.

The headline seasonally adjusted Business Activity Index edged down from 52.0 in January to 51.5 in February, to indicate a mild increase in services activity across China. Moreover, the rate of expansion was the softest recorded in the current ten-month period of rising output.

Service providers indicated that business activity rose in line with new work. Total new orders increased modestly overall, with the rate of growth likewise easing to a ten-month low. While a number of firms commented on firmer client demand, there were reports that the recent resurgence of COVID-19 cases globally had dampened sales growth. Notably, new export orders fell for the first time since last October, albeit modestly.

Service providers took a more cautious approach to workforce numbers in February and reduced their headcounts. Though only mild, it was the first time that employment had fallen since last July. Companies that noted lower staffing levels often linked this to cost-cutting initiatives and the non-replacement of voluntary leavers.

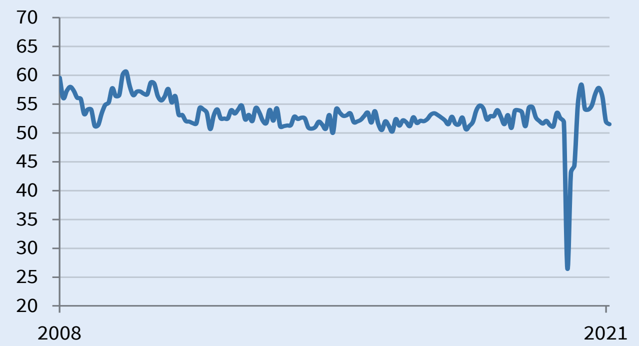
Although employment fell, there seemed little pressure on operating capacities in February. This was signalled by a further reduction in outstanding business, though the rate of depletion remained marginal. Anecdotal evidence suggested that greater efficiency and subdued sales had enabled firms to work through backlogs.

Chinese services companies registered a further steep increase in operating costs during February. Although not as sharp as that seen at the start of the year, the upturn was among the quickest seen over the past decade. Greater purchasing and staffing costs were cited as key drivers of inflation. However, efforts to remain competitive meant that firms only partially passed on higher input costs to clients, as prices charged rose modestly.

Looking ahead, service providers in China were strongly optimistic that business activity will rise over the next year. Moreover, the degree of positive sentiment strengthened since January and was among the highest seen over the past eight years. Hopes that the COVID-19 pandemic will come to an end were central to upbeat forecasts, while there were also mentions of planned company expansions and new product releases.

### China General Services Business Activity Index

sa, >50 = growth since previous month




Sources: Caixin, IHS Markit

Key findings:

Services activity growth eases to ten-month low

Softer increase in total new work amid renewed drop in export sales

Confidence regarding the 12-month business outlook remains robust

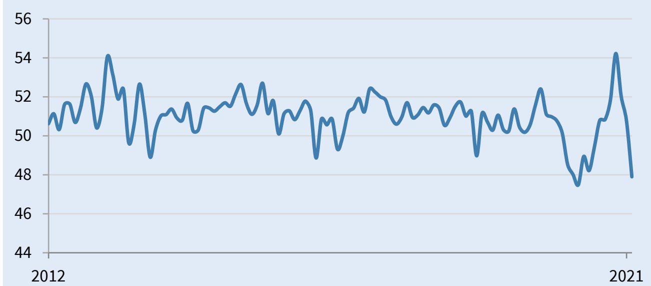
## New Business Index

sa, >50 = growth since previous month


Sources: Caixin, IHS Markit

## Employment Index

sa, >50 = growth since previous month




Sources: Caixin, IHS Markit

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 51.5 in February, declining for the third month in a row and hitting the lowest point since April 2020, as the momentum of post-epidemic services recovery further weakened.

1. Both supply and demand in the services sector expanded for the 10th straight month, albeit at a slower pace. The business activity index and total new business measure both fell to the lowest levels in 10 months as the market was hit by domestic flare-ups of Covid-19 and the ongoing overseas pandemic. Weak overseas demand dragged down overall demand, with the measure for new export business falling into contractionary territory for the first time in four months.

2. Employment in the services industry weakened, with its measure returning to negative territory after expanding for six straight months. Service providers cut staff to reduce costs as weakened market sentiment had a knock-on effect on the job market. Outstanding business continued to decrease amid the sluggish demand.

3. Inflationary pressure increased as input costs still rose quickly. As in the past few months, the measure for input costs was deep in expansionary territory in February, registering one of the highest readings since early 2012. The rises in raw material prices and labor costs both drove up input costs. Prices charged by service providers rose at a slower pace due to weakened market demand.

4. Service providers were generally optimistic about the economic recovery, and were especially confident that both the domestic and overseas epidemics would fade. The gauge for business expectations rose from January."

# Caixin China General Composite PMI ™

## Softest increase in total business activity for ten months

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.

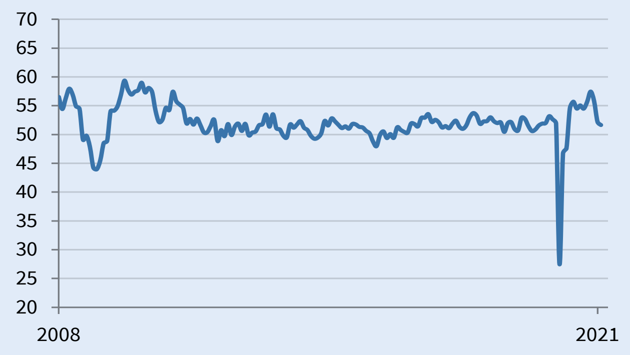
At 51.7 in February, the Composite Output Index fell from 52.2 in January to signal a moderate increase in total business activity across China. That said, the rate of expansion was the slowest recorded in the current ten-month sequence of growth. Softer increases in output were recorded across both the manufacturing and service sectors.

Composite new orders also rose at a slower pace, with growth easing to a ten-month low. Sales rose only slightly at manufacturers, while services companies noted a mild upturn. Employment at the aggregate level, meanwhile, fell for the first time since last July, albeit modestly, driven by reductions at both manufacturing and services companies.

Composite input costs continued to increase sharply, despite the rate of inflation easing to a three-month low. Prices charged also rose at a slightly softer pace.

### China General Composite Output Index

sa, >50 = growth since previous month




Sources: Caixin, IHS Markit

### Comment

Commenting on the China General Composite PMI ™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

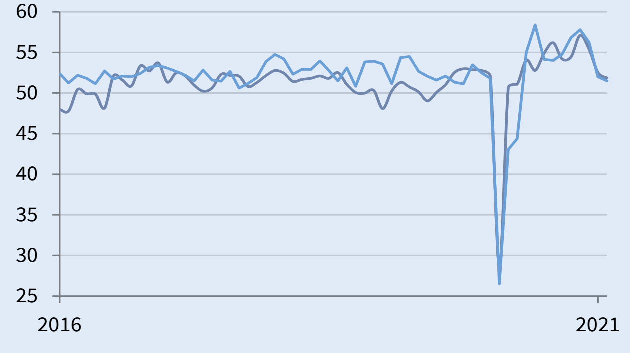
"The Caixin China Composite Output Index fell to 51.7 in February, down from 52.2 the previous month. Demand and supply in both the manufacturing and services sectors improved at a slower pace. Overseas demand and domestic employment both shrank. Inflationary pressure mounted as the measure for input costs remained high, and the gauge for output prices was also in expansionary territory. Respondents remained optimistic about the economic outlook for the next 12 months.

"To sum up, the momentum of manufacturing and services recovery further weakened. Overseas demand was sluggish and the job market was under higher pressure. Inflationary pressure continued to grow. Despite these headwinds, manufacturers and service providers were still optimistic. The confidence mainly came from the experience in fighting the pandemic over the past year, as well as the expectation that winter Covid-19 flare-ups were coming to an end. Also, companies were confident in the future outlook for their new products.

"Now the major challenge for policymakers will be maintaining the post-coronavirus recovery while paying close attention to inflation."

### 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 2-18 February 2021.

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.

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.



## Disclaimer



## Contact

Dr. Wang Zhe

Senior Economist

Caixin Insight Group

T: +86-10-8590-5019

zhewang@caixin.com

Ma Ling

Senior Director

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

Katherine Smith

Public Relations

IHS Markit

T: +1-781-301-9311

katherine.smith@ihsmarkit.com