

# Caixin China General Services PMI™

Chinese business activity rises modestly at start of 2017

## Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled a slight softening of growth momentum across China at the start of 2017. At 52.2 in January, the Composite Output Index fell from December's 45-month high of 53.5 to indicate a moderate rate of expansion that was the slowest since September 2016.

The decline in the composite index coincided with slower increases in both manufacturing and services activity at the start of the year. Notably, manufacturing companies saw the rate of output expansion ease from December to a four-month low. Although services activity growth also slowed, it remained solid overall and similar to that recorded in the prior two months. This was highlighted by the seasonally adjusted Caixin China General Services Business Activity Index falling only slightly from December's 17-month peak of 53.4 to 53.1 in January.

As was the case for output, new business also increased at a slower pace at both manufacturers and service providers in January. After reaching a near two-and-a-half year record in December, growth in new orders across the manufacturing sector eased to a moderate pace overall. New business continued to rise markedly at service companies, despite the rate of expansion slowing from that seen at the end of 2016. Consequently, composite new work increased at a weaker pace, though the rate of growth was nonetheless the second-strongest since June 2014 (after December 2016).

Contrasting employment trends were seen in each monitored sector in January, with services companies noting a faster rate of job creation, while manufacturing firms trimmed their staff numbers at a slightly faster pace. Notably, it was the quickest increase in service sector payrolls since May 2015. Despite goods producers recording the most marked decline in workforce numbers for three months, employment at the composite level stabilised in January following a 19-month sequence of reduction.

The amount of unfinished work increased across both manufacturers and service providers in January, with both sectors mentioning increased capacity pressures due to higher new orders. That said, the rate of backlog accumulation was only marginal across services companies. At the same time, goods producers noted the slowest increase in the level of work-in-hand (but not yet completed) in eight months. Composite outstanding business therefore rose at only a modest pace that was similar to that seen in December.

Manufacturers saw a further sharp rise in average input costs during January, despite the rate of increase easing from December's recent peak. Services companies also reported higher cost burdens, with the rate of inflation edging up to a solid pace that was the fastest in 47 months. At the composite level, input costs increased at a rate that, though sharp, was the least marked since October 2016.

Average prices charged for Chinese manufactured goods and services continued to increase at the start of the year. Goods producers raised their prices solidly overall, despite the rate of charge inflation easing to a four-month low. Meanwhile, services companies increased their prices at a faster pace, albeit one that remained marginal overall. Consequently, composite output charges rose at the slowest rate since September 2016.

Sentiment towards the 12-month business outlook was strongly positive across both the manufacturing and service sectors in January. Furthermore, improved levels of confidence in both sectors led the Composite Future Output Index to a ten-month high.

## Key points

- Both manufacturers and services providers see slower increases in activity and new work
- Employment stabilises, ending 19-month sequence of reduction
- Business confidence improves to ten-month high

## Comment

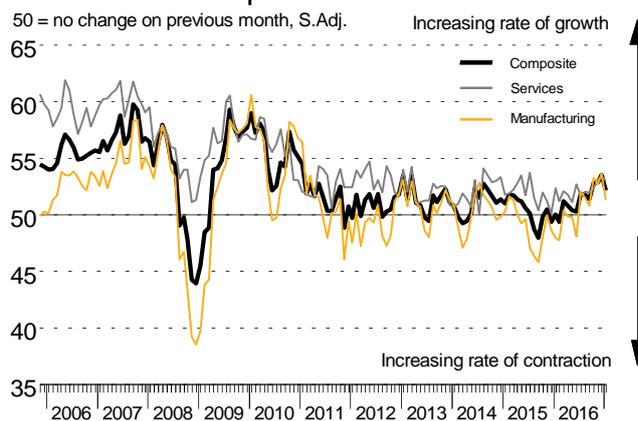
Commenting on the China General Services PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

*"The headline Caixin China General Services PMI was down 0.3 points to 53.1 in January 2017. New business continued to grow rapidly, though at a marginally slower rate than in the previous month; while input prices and output charges increased at faster rates."*

"The Caixin China Composite Output Index came in at 52.2, down 1.3 points from the previous month and weaker than the average level in the fourth quarter of last year.

"Manufacturing and services continued to expand in January. The economy continued to recover, but the expansion rate has slowed down. Meanwhile, inflationary pressures continued to build up as prices increased further. The economy is unlikely to maintain the pace of expansion seen in the fourth quarter of last year given that the manufacturing sector's willingness to restock has declined. China's economic growth may decelerate after the first quarter of this year."

## 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 Markit. Please contact [economics@ihsmarkit.com](mailto: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.

For more information, please visit [www.caixin.com](http://www.caixin.com).

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