

Caixin China General Services PMI™

Chinese business activity expands at quickest pace for seven years in January

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) indicated that growth momentum across China picked up for the third straight month in January. Furthermore, the Composite Output Index rose to a seven-year high of 53.7, from 53.0 in December, to signal a solid pace of expansion.

January survey data signalled accelerated rates of activity growth across both the manufacturing and service sectors in China. The steeper pace of expansion was registered by services companies, which saw the most marked increase in activity since May 2012. This was highlighted by the seasonally adjusted Caixin China General Services Business Activity Index posting 54.7 at the start of 2018, up from 53.9 in December. At the same time, manufacturers signalled the quickest upturn in production levels since December 2016.

Similar to the trends for activity, both service providers and manufacturers noted a further increase in new business during the opening month of the year amid reports of firmer client demand. Furthermore, new order growth accelerated to a 32-month record across the service sector. Meanwhile, goods producers registered a modest increase in new work that was softer than in December. At the composite level, total new orders rose at a solid pace that was similar to that recorded at the end of 2017.

Employment data continued to signal divergent trends, with rising headcounts at services companies contrasting with further job cuts at manufacturers. Service sector staff numbers have now risen for seventeen months in succession, with some firms adding to their payrolls due to greater business requirements. Moreover, the rate of job creation edged up to a five-month high. Manufacturing workforce numbers meanwhile declined at the softest pace for nearly three years. As a result, composite employment rose slightly, after broadly stagnating between August and December last year.

After falling in each of the prior four months, backlogs of work were unchanged at services companies in January. In contrast, manufacturers signalled sustained pressures on operating capacity, with outstanding work rising for the twenty-third month in a row and to the greatest extent since March 2011. Consequently, unfinished business rose at a stronger, albeit modest, pace at the composite level.

The rate of input price inflation continued to soften across China's manufacturing sector at the start of the year. Though sharp overall, the pace of increase was the weakest since last August. Service providers meanwhile registered a faster rise in cost burdens, with the rate of inflation the steepest since April 2012. Nonetheless, the marked slowdown in the manufacturing sector led composite input prices to increase at the slowest pace for five months.

Despite strong cost pressures, manufacturers and service providers raised their output charges at softer rates in January. In fact, selling prices rose only marginally in both cases. At the composite level, average charges increased at the slowest pace in seven months.

Chinese companies were generally optimistic that activity would increase over the next 12 months. However, improved confidence across the manufacturing sector (four-month high) contrasted with a slight dip in sentiment at service providers (four-month low). Nonetheless, expectations remained relatively subdued across both sectors compared to their long-run trends.

Key points

- Service sector activity expands at fastest pace since May 2012, while manufacturing output also rises solidly
- Total employment rises at quickest pace for ten months
- Overall inflationary pressures ease

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 rose 0.8 points to 54.7 in January, the joint-best reading since October 2010.

"The new business sub-index continued to inch up, although by a smaller margin than in the previous two months, reflecting solid demand for services. The input prices sub-index hit the highest since April 2012, due to the impact of rising labor costs

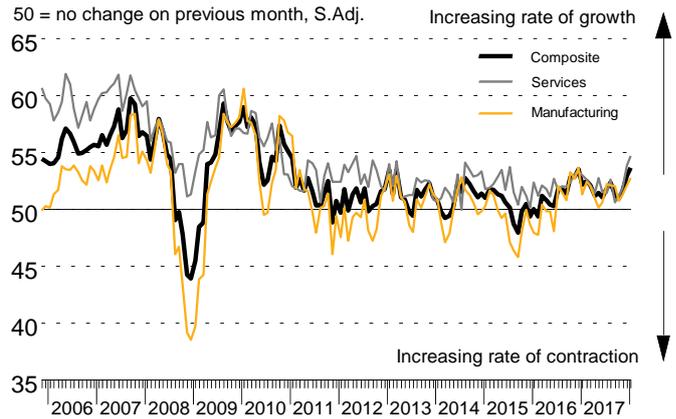
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and increasing crude oil prices. However, the sub-index of prices charged went down again last month, suggesting that providers of services have failed to fully pass higher costs on to consumers.

"The Caixin China Composite Output Index increased 0.7 points to 53.7 in January, pointing to continued improvement in the operating conditions of both the manufacturing and services sectors.

"Caixin PMI readings in January showed that the Chinese economy had a good start to 2018. Looking forward, we should watch for stability of demand in the manufacturing industry and the impact of growing costs on the profitability of service providers."

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.

For more information, please visit www.caixin.com.

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