

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector activity rebounds as pandemic restrictions recede

China's service sector had a positive start to 2023, with the recent rollback of COVID-19 restrictions supporting the first upturns in business activity and new work since August 2022. Nevertheless, the pandemic continued to impact business operations. Notably, staff absences due to illness contributed to a slight fall in workforce numbers, and a stronger rise in backlogs of work. Prices data showed that inflationary pressures remained relatively muted, however, as input costs rose modestly and output charges only slightly.

Business confidence strengthened notably on the month, with the relaxation of COVID-19 containment measures widely expected to boost activity over the coming year. Moreover, the level of optimism rose to the highest since February 2011.

The seasonally adjusted headline Business Activity Index increased from 48.0 in December to above the neutral level of 50.0 at 52.9 in January. This signalled the first expansion of Chinese service sector activity for five months, and one that was solid overall. Companies frequently linked the increase in activity levels to the rollback of pandemic measures across the country and a recovery in customer demand.

As was the case for activity, overall new business increased for the first time in five months. The modest upturn in new work was supported by higher customer numbers, particularly with the relaxation of rules around travel, but also improved foreign demand. Though mild, the increase in new export business was the joint-quickest since April 2021.

There was evidence that the pandemic did continue to impact operations, however, as staff absences due to rising COVID-19 case numbers contributed to a reduction in staffing levels. There were also reports of companies trimming their workforce numbers due to efforts to control costs. That said, the rate at which employment fell was the slowest for three months and only marginal.

A combination of rising sales and pandemic-related disruptions, most notably staff absences, drove a further increase in backlogs of work during January. Though moderate, the pace of accumulation was the fastest seen since May 2022.

The rate of input cost inflation picked up for the first time in five months in January, with firms often commenting on higher raw material, staff and fuel expenses. That said, the upturn in cost burdens remained mild overall and weaker than the series average. Average prices charged by service providers meanwhile continued to rise only slightly. While some firms looked to pass on higher operating costs to clients by raising their fees, others mentioned that pricing power was constrained by efforts to attract new business.

Business optimism strengthened notably at the start of 2023, buoyed by hopes that the recent loosening of pandemic restrictions will feed through to further improvements in customer demand and activity levels over the next year. Overall, the degree of positive sentiment rose to the highest for nearly 12 years.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

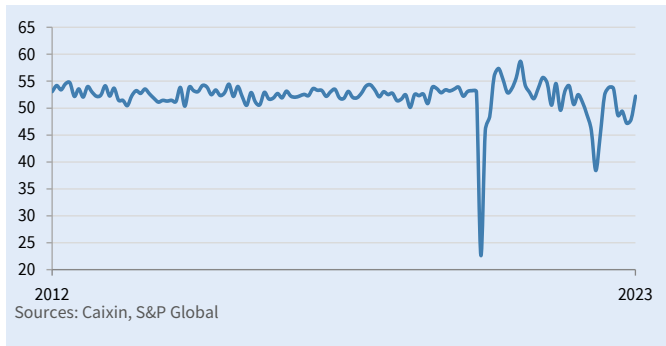
Renewed increases in business activity and new orders

Business confidence improves to highest since February 2011

Backlogs expand at quicker pace as employment falls again

New Business Index

sa, >50 = growth since previous month



Employment Index

sa, >50 = growth since previous month



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 in January rose 4.9 points from the previous month to 52.9, as activity in the sector picked up after a Covid-19 policy shift.

“Both services supply and demand moved into expansion. Although Covid infections remained high, an easing of related containment measures stimulated supply and demand in the sector. The gauges for business activity and total new business both came in above 50, marking an end to a four-month contraction. Lifted travel restrictions also boosted services exports, with the reading for new export orders climbing into expansionary territory.

“The number of people employed in the services sector declined. Surging Covid infections impacted the number of people at work, and businesses also cut jobs to reduce costs. In January, the measure for employment came in below 50 for the third straight month, but the contraction was much milder. Correspondingly, backlogs of work continued to grow.

“Prices remained stable for the sector. The rising costs of raw

materials, labor and energy further pushed up service providers’ aggregate spending, though only moderately, with the measure for input costs staying slightly above 50. Prices charged also ticked up marginally, with the related gauge above 50 for the ninth month running.

“Optimism continued to grow in the sector in January. Businesses expressed greater confidence in an economic recovery following the easing of Covid controls, with the gauge for expectations for future activity growing nearly 6 points month-on-month, hitting the highest since February 2011.”



Caixin China General Composite PMI™

Overall business activity expands for first time in five 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.

At 51.1 in January, the seasonally adjusted Composite Output Index increased from 48.3 in December to signal the first upturn in total Chinese business activity since August 2022. The expansion was mild, however, as a strong rise in service sector activity was partly offset by a further decline in manufacturing output.

Composite new business also returned to growth in January, though the rate of increase was marginal. A modest recovery in service sector sales coincided with a softer fall in new orders at manufacturers. At the same time, the downturn in total new export work moderated.

Overall employment fell at a marginal rate that was the slowest for three months. Average input costs meanwhile increased at the quickest pace for six months, though prices charged were broadly stable. Business confidence regarding the 12-month outlook for output improved to the joint-highest in nearly a decade.

Comment

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

“The Caixin China General Composite PMI came in at 51.1 in January, up 2.8 points from the previous month. It was the first time the reading was above 50 in the past five months.

“Services activity experienced a boom, as both supply and demand expanded, whereas the manufacturing sector became a drag. Employment remained relatively sluggish, with the manufacturing sector logging a larger contraction. Prices stayed stable. Optimism among businesses improved significantly.

“Since Covid controls were optimized at the end of 2022, China has seen a surge in Covid infections. According to the Chinese Center for Disease Control and Prevention, the numbers of fever clinic visits nationwide and people hospitalized with Covid peaked in late December and early January, respectively, and have declined since then. Given this backdrop, services activity picked up ahead of manufacturing. However, it will still take time for employment to rebound.

“After being hit by the latest wave of Covid infections, the primary focus of economic work should be on accelerating economic recovery and promoting normalized production and social order. Improving expectations, restoring confidence, increasing income, expanding consumption, and stimulating domestic demand will be among the priorities. There is still uncertainty in how the pandemic will develop, so full preparation should be made to deal with the next wave of the virus. China will still need to effectively coordinate pandemic containment with economic and social development.”

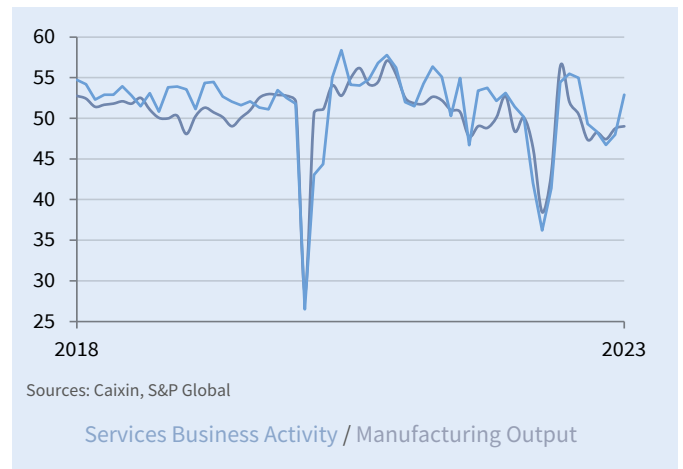
China General Composite Output Index

sa, >50 = growth since previous month



Index by sector

sa, >50 = growth since previous month





Survey methodology

The Caixin China General Services PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 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 09-23 January 2023.

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.

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