

Caixin China General Services PMI™

Service sector performance improves at start of the year

Summary – Services and Composite PMI data

Caixin China Composite PMI™ data (which covers both manufacturing and services) pointed to a stabilisation of Chinese business activity in January, following a slight reduction at the end of 2015. This was signalled by the headline Caixin Composite Output Index registering fractionally above the no-change 50.0 value at 50.1, up from 49.4 in December.

Chinese service providers had a strong start to 2016, with business activity increasing at the fastest rate in six months. This was highlighted by the headline Caixin China General Services Business Activity Index posting up from December's 17-month low of 50.2 at 52.4 in January. According to panellists, improved inflows of new business underpinned the latest expansion of services activity. Meanwhile, the downturn in the manufacturing sector extended into 2016, with production declining for the second month in a row.

In line with the trend for activity, new orders rose at service sector firms, but declined again at manufacturers. Moreover, the rate of service sector new business growth accelerated to a solid pace that was the strongest in three months. A number of respondents mentioned that new product launches and stronger underlying customer demand had helped to lift sales. As a result, composite new business rose slightly in January, after a two-month sequence of reduction.

Divergent employment trends were seen at the sector level, with staff numbers rising at services companies and falling at manufacturing firms during January. Furthermore, the pace of job creation at service providers quickened to a six-month high, with some firms commenting on planned company expansions. However, service sector employment growth did not offset job shedding at goods producers, and consequently staff numbers fell for the eighth successive month at the composite level, albeit only slightly.

After broadly stabilising in December, the level of outstanding business at service providers declined marginally in January. Conversely, backlogs of work increased for the ninth consecutive month at manufacturers. That said, the rate of accumulation was the slowest seen since May 2015. At the composite level, the level of work-in-hand (but not yet completed) fell for the first time in four months (though at a marginal rate).

Services companies and manufacturers both reduced their prices charged in January. The rate of discounting was marginal across the service sector, while goods producers cut their prices at a moderate pace. Average cost burdens meanwhile increased at service providers, though the rate of input price inflation eased to its lowest level in four months. Softer growth of service sector input prices, combined with a solid reduction in manufacturers' costs, led to a further fall in input prices at the composite level.

Service providers were generally optimistic towards the one-year business outlook in January. Although the overall degree of positive sentiment improved to the strongest since July 2015, it remained much weaker than the series long-run average.

Key points

- Services activity growth reaches six-month high, as manufacturing downturn continues
- Solid rise in service sector new business supports first increase in composite new work since October 2015
- Modest rise in service sector employment as job shedding intensifies at goods producers

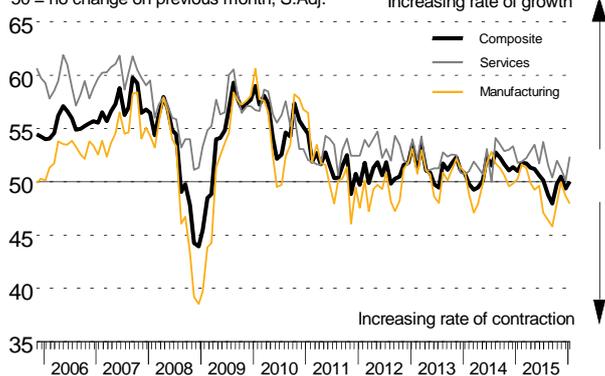
Comment

Commenting on the China General Services PMI™ data, Dr. He Fan, Chief Economist at Caixin Insight Group said:

"The headline Caixin China General Services PMI for January is 52.4, the highest level since July. It marks a significant improvement of 2.2 points over the reading for December. The Caixin Composite Output Index came in at 50.1 above the neutral 50-point level, showing that the economy has been recovering. Overall, the fast development of the services sector has to a large extent offset the impact of weakening manufacturing, indicating a better economic structure. The government should continue to deepen reform, relax administrative controls and reduce restrictions on market entry for service providers. This will release the potential of the services sector and help improve the economic structure."

Caixin China Output PMI

50 = no change on previous month, S.Adj.



Sources: 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@markit.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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About PMI:

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