

Caixin China General Services PMI™

Composite data signals sharper growth of business activity in December

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) pointed to a further marked rise in business activity across China in December, with the rate of expansion picking up since the previous month. Moreover, the Composite Output Index posted up from 52.9 in November to a 45-month high of 53.5 at the end of 2016.

China ended 2016 on a positive note, with both manufacturers and service providers seeing stronger increases in business activity compared to November. While manufacturers saw the quickest rate of output expansion for nearly six years, services companies reported the strongest rise in activity for 17 months. The latter was shown by the seasonally adjusted Caixin General Services Business Activity Index rising from 53.1 to 53.4 in December.

Improved rates of new order growth were also seen across both monitored sectors in December. The pace of new business expansion accelerated to its strongest since July 2014 at manufacturing companies amid reports of improving client demand. At the same time, growth in new work at services companies quickened to a 17-month record. Subsequently, the rate of composite new order growth was the fastest since March 2013.

Despite stronger expansions in activity and new work, service providers increased their payrolls at a softer pace in December. Furthermore, the latest increase in staff numbers was the slowest for three months and modest overall. Meanwhile, job shedding persisted across China's manufacturing sector, though the rate of reduction was little-changed from November. At the composite level, employment fell slightly in December after broadly stabilising in the previous month.

Following on from fractional increases during each of the prior two months, the amount of backlogged work at Chinese services companies was broadly unchanged in December. In contrast, manufacturing firms saw a solid increase in unfinished workloads, with the rate of accumulation the fastest since July. This led composite outstanding business to rise at the quickest pace since March 2011.

Average input costs rose at steeper rates across both manufacturing and services sectors at the end of 2016. Manufacturers noted the fastest increase in cost burdens since March 2013, while service sector input costs rose at the quickest rate in nearly two years. Companies operating in both sectors suggested that higher raw material costs had underpinned the latest increase in input prices. As a result, overall input prices rose at the most marked pace for 69 months.

Services companies raised their prices charged only slightly in December, amid reports that competitive market pressures had restricted their ability to fully pass on higher input costs. Meanwhile, manufacturers increased their selling prices sharply, despite the rate of inflation softening from the previous month. Consequently, composite prices charged rose at a slower rate than in November, but the latest increase was nonetheless one of the steepest seen since early 2011.

Services companies were generally upbeat towards their growth prospects in 2017. Moreover, the degree of optimism reached a four-month high, with a number of companies linking confidence to forecasts of improving market conditions and company expansions.

Key points

- Both manufacturers and services providers see steeper increases in activity
- Overall employment declines slightly, due to ongoing job shedding across the manufacturing sector
- Input price inflation remains sharp, but companies raise their selling prices at softer pace

Comment

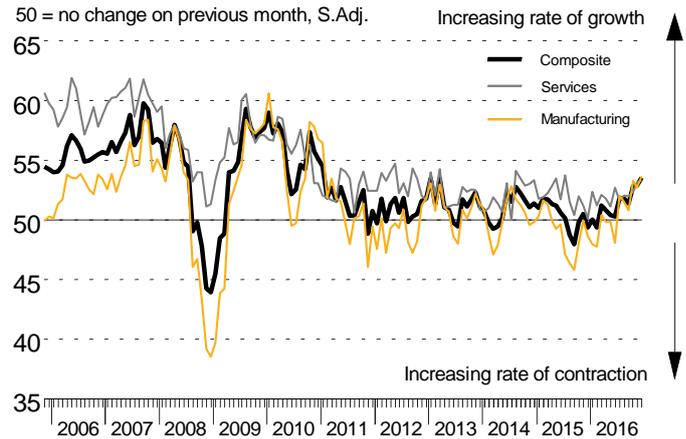
Commenting on the China General Services PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

"The headline Caixin China General Services PMI was up 0.3 points from a month ago to 53.4 in December. The sub-indices of new orders, input costs and prices charged all went up. The Caixin China Composite Output Index came in at 53.5 in December, up 0.6 points from November and the highest level since 2013.

"Manufacturing and services both expanded in December, showing recovery in the economy continued. The Chinese economy performed better in the fourth quarter than in the previous three quarters. It is out of the question the government's full year growth target will be reached.

"However, uncertainties remain regarding whether the intrinsic drivers for growth next year can effectively offset the negative impact from gradually tightening property policies and likely slowing expansion in fiscal and monetary policies. We have to stay vigilant over the downward pressures on the economy."

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.

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.

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