

Caixin China General Services PMI™

February data signals stronger growth in Chinese business activity

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) indicated a slight improvement in the rate of output expansion across China in February. The Composite Output Index rose from January's four-month low of 52.2 to stand at 52.6 in February, to signal a moderate increase in overall Chinese business activity.

The uptick in the headline index was supported by faster growth in Chinese manufacturing production during February. That said, the rate of output expansion was moderate overall, and weaker than those seen in the final quarter of last year. At the same time, services activity growth softened slightly in February, with the latest increase the slowest seen in four months. The seasonally adjusted Caixin China General Services Business Activity Index was down to 52.6 from 53.1 in January, to indicate a modest pace of growth.

In line with the trend for overall activity, growth in composite new business quickened to a solid pace in February. Furthermore, it was the second-fastest rate of composite new order growth since March 2013 (after December 2016). A marked rise in new orders placed with manufacturers (the second-strongest in 31 months), helped to lift total new work. Nonetheless, services companies also registered a solid upturn in new order intakes, with the rate of expansion unchanged from that seen at the start of the year. Anecdotal evidence indicated that improved client demand and expansion into new markets helped to drive new orders higher in the latest survey period.

Service sector employment continued on an upward trend in February, though the rate of payroll expansion weakened slightly from the 20-month record seen at the start of the year. Meanwhile, manufacturing companies recorded only a marginal drop in workforce numbers that was the slowest seen in two years. Sustained growth in service sector staffing levels underpinned the first increase in composite employment since May 2015, albeit marginal.

Capacity pressures persisted in February, with backlogs of work rising across both the manufacturing and service sectors. Although marginal, the latest rise in unfinished work at services companies was the fastest seen since the start of 2010. In contrast, the modest accumulation of backlogs seen at manufacturing companies was the slowest seen in nine months. At the composite level, outstanding business rose for the twelfth successive month, albeit marginally.

Average input costs continued to rise sharply at Chinese manufacturers in February, despite the rate of inflation easing to a four-month low. Service providers meanwhile registered only a modest rise in cost burdens that was the slowest since last November. Overall, composite data signalled a further marked rise in average input prices, albeit one that was the weakest in four months.

Reflective of the trend for input costs, composite output charges increased at a softer pace in February. Notably, the latest increase in overall output charges was the slowest seen since September 2016. Manufacturers raised their selling prices at a rate that, though solid, was the weakest recorded in five months. However, competitive market pressures limited the overall pricing power of services companies, which led prices charged for services to be little-changed from the previous month.

Optimism towards future activity growth remained strongly positive in February. While manufacturers reported the highest level of positive sentiment for 21 months, confidence in the service sector fell slightly from January's 11-month high. At the composite level, sentiment towards the business outlook edged up to its highest since May 2015.

Key points

- Manufacturing output expands at quicker pace, while services activity growth softens slightly
- Composite employment rises for the first time since May 2015
- Inflationary pressures continue to ease

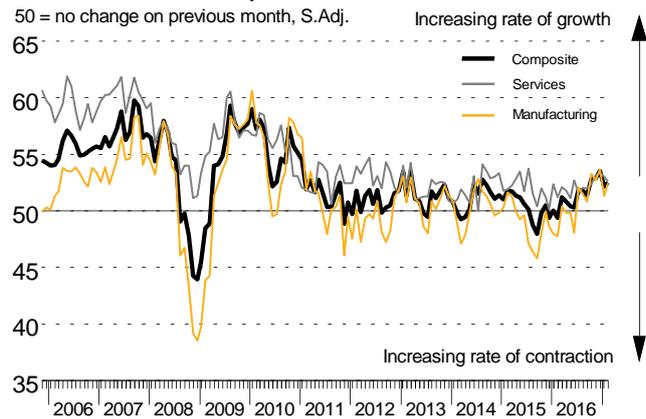
Comment

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 fell 0.5 points from a month ago to 52.6 in February, to signal the slowest expansion in four months. Growth in new business was unchanged compared with the previous month, while the sub-indices of input prices and output charges declined since January. The Caixin China Composite Output Index rose 0.4 points from January to 52.6 in February, but remained weaker than the average level in the fourth quarter of 2016. The

Chinese economy continued to recover in February, but the expansion in services decelerated, though there was a pickup in manufacturing expansion. Inflationary pressures seemed to have started to ease as price increases in both manufacturing and services continued to weaken. The Chinese economy is expected to maintain the growth momentum in the first quarter of this year. But signs of weakening may emerge from the second quarter.”

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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