

PMI

Caixin China
General Services
PMI Press Release

2022.02



Caixin China General Services PMI™

Services activity expands at slowest rate for six months

Latest survey data signalled a further slowdown in business activity growth across China's service sector in February. Output rose only slightly overall, while firms reported a renewed fall in overall new business, which was linked to the ongoing pandemic and measures to contain the virus. Employment meanwhile fell slightly for the second month in a row, and backlogs of work increased marginally. Cost pressures eased, with both input costs and output charges rising at slower rates than those seen at the start of the year.

Despite the recent slowdown in activity growth, businesses expressed stronger optimism for the year ahead, often linked to forecasts of a robust post-pandemic recovery.

The seasonally adjusted headline Business Activity Index slipped from 51.4 in January to 50.2 in February, to signal only a marginal rise in services activity. Notably, the expansion was the softest seen since the current period of growth began last September. According to panel members, the ongoing pandemic and measures to stem the spread of the virus had dampened business activity.

Measures to contain COVID-19 cases, including travel restrictions, also impacted client demand, which fell for the first time in six months. Though mild, it marked the quickest decline in total new work since April 2020. This was partly due to a further reduction in new export business, which was reportedly also dampened by the pandemic.

Capacity pressures moderated in February, as highlighted by a softer increase in outstanding workloads. Notably, the rate of accumulation was the slowest seen for four months and only marginal. When higher backlogs were reported, this was generally due to the pandemic and its impact on operations and logistics.

Service sector employment in China fell for the second month running in February. However, the rate of job shedding eased since January and was only slight. Firms that registered lower headcounts often linked this to relatively subdued demand conditions and challenges recruiting or replacing workers due to COVID-19.

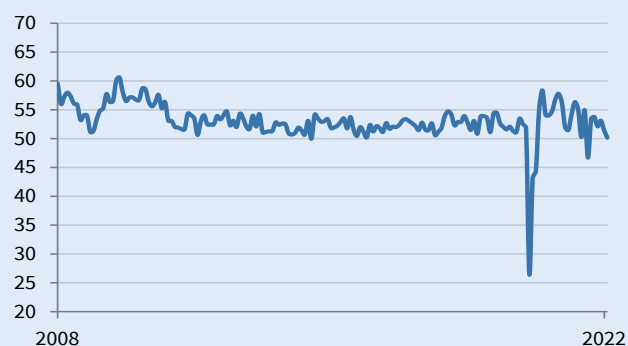
Latest survey data showed a notable slowdown in the rate of input price inflation midway through the first quarter. The latest increase in input costs was the softest since August 2021 and mild overall. Where higher expenses were reported, they were often attributed to greater costs for raw materials, energy and labour.

The rate of prices charged inflation likewise slowed in February. Service providers raised their fees only modestly, with some firms choosing to raise their fees in order to pass on additional cost burdens to clients. However, there were reports that increased competition for new business had limited overall pricing power.

Although firms saw a further slowdown in growth momentum during February, optimism around the 12-month outlook for output improved to a three-month high. Service providers generally expect a strong post-pandemic recovery, improving customer demand and new product launches to drive activity growth over the next year.

China General Services Business Activity Index

sa, >50 = growth since previous month



Sources: Caixin, IHS Markit

Key findings:

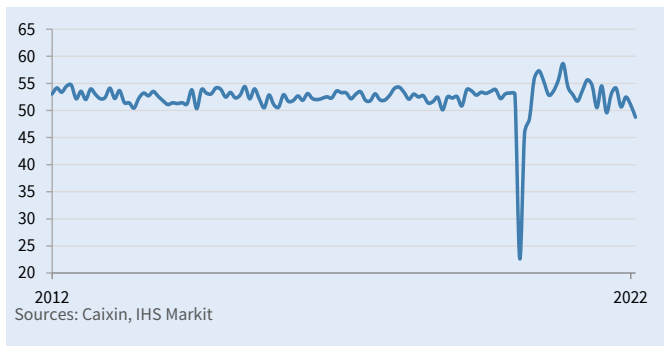
Business activity rises at slower pace amid renewed drop in new orders

Employment falls slightly

Weaker increases in input costs and prices charged

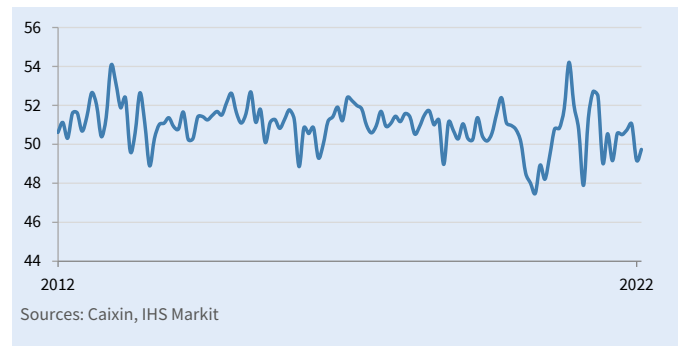
New Business Index

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 came in at 50.2 in February, down from 51.4 the previous month but still in expansionary territory. Over the past month, Covid-19 flare-ups in several regions had a relatively large impact on the services sector.

“Demand for services contracted, while supply expanded at a limited pace. The spread of Covid-19 in several regions hurt business operations of service companies. The business activity index managed to remain in expansionary territory in February, but fell to its lowest point in six months. The Covid flare-ups had a larger impact on demand than on supply. The gauge of total new business fell into contractionary territory in February for the first time in six months. Surveyed enterprises said the latest wave of the pandemic also impacted foreign trade, with new export business contracting for the second straight month in February.

“The job market for services continued to shrink. The resurgence of Covid and the largely weakened market demand took a toll on the labor market. The measure of employment remained in

negative territory for the second month in a row, though the rate of contraction was limited. Impacted by the epidemic and weakening market demand, outstanding business rose only slightly.

“Input costs and prices charged both continued to rise. Input costs of service enterprises grew at the slowest pace since August. High prices of raw materials and energy, as well as high labor costs, put pressure on suppliers in the services sector, which passed along a portion of their higher costs to customers. As a result, prices charged rose further. The gauge of input costs was higher than the gauge of prices charged, indicating the survival pressure facing service enterprises.

“Market sentiment remained positive. Companies in the services sector grew more confident that the domestic epidemic will be kept under control. The measure of future activity expectations rose further into positive territory, hitting its highest in three months.”



Caixin China General Composite PMI™

Composite output growth remains muted in February

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. The China Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

At 50.1 in February, the seasonally adjusted Composite Output Index was unchanged from January and signalled only a fractional rise in overall business activity across China. As a result, the reading remained below the series average (52.6). Underlying data showed that output rose fractionally across both manufacturing and service sectors midway through the first quarter.

After a slight fall in January, composite new business was stable in February, with a modest increase in sales at manufacturers offsetting a renewed fall at services companies. Both sectors recorded lower intakes of new export business, however, though the pace at which total foreign demand decreased eased since January.

Composite employment fell for the second month running, albeit only marginally. Input cost inflation slowed from January, driven by a weaker increase in services costs, but remained solid overall.

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 50.1 in February, unchanged from the previous month. Output in both the manufacturing and services sectors grew slightly. Demand in the manufacturing sector experienced a strong recovery, while demand for services was clearly under pressure due to the impact of the epidemic. Overseas demand was weak due to the pandemic. The labor markets in both the manufacturing and services sectors shrank. Input costs and output prices continued to grow. We still need to keep an eye on inflationary pressure."

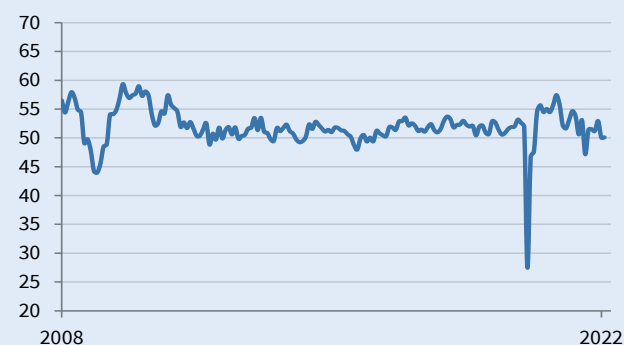
"Overall, the manufacturing PMI rose in February, while the services PMI fell, but both remained in positive territory. Demand in the manufacturing sector improved, while demand in the services sector was greatly affected by the epidemic. Entrepreneurs remained relatively optimistic about the outlook for their businesses. The job market remained subdued, and pressure on employment remained elevated. Meanwhile, inflation was picking up."

"From January to February, several regions across China, including Jiangsu province and the Guangxi Zhuang and Inner Mongolia autonomous regions, suffered flare-ups of Covid-19. Epidemic control measures were strengthened, which restricted transportation and sales. Under the "triple pressure" of demand contraction, supply shocks and weakening expectations, the economy's recovery is still not robust. Stabilizing economic growth remains an important focus of the government."

"Policymakers should enhance support policies to encourage employment, strengthen structural support for small and midsize enterprises and effectively reduce the tax burden and fundraising costs for companies. Meanwhile, they should maintain a stable market environment, continue to stabilize commodity supply and prices, and lighten the cost burden on businesses in the middle and lower reaches of supply chains."

China General Composite Output Index

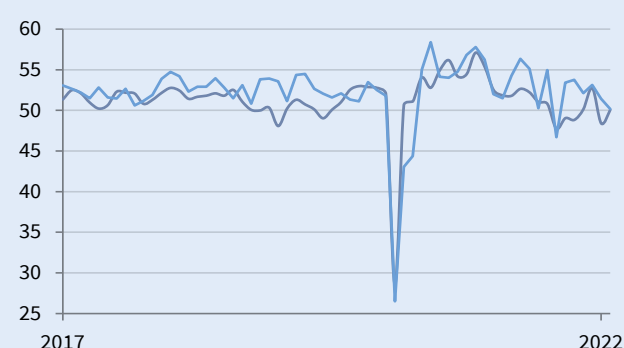
sa, >50 = growth since previous month



Sources: Caixin, IHS Markit

Index by sector

sa, >50 = growth since previous month



Sources: Caixin, IHS Markit

Services Business Activity / Manufacturing Output



Survey methodology

The Caixin China General Services PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 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 10-18 February 2022.

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>.

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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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