

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI®

Services sector growth remains muted in October

Business activity across China's service sector continued to expand only marginally during October. Subdued activity levels coincided with a further slowdown in new order growth, which was the weakest in the year to date despite a faster improvement in new export business. At the same time, services companies took a more cautious stance on hiring, with employment levels unchanged after eight months of expansion. Expectations regarding the year-ahead outlook for activity meanwhile slipped to the lowest level since early-2020 amid concerns that sluggish market conditions could persist in the months ahead.

At 50.4 in October, the seasonally adjusted headline Caixin China General Services Business Activity Index pointed to a sustained rise in service sector business activity. However, the index held close to September's nine-month low of 50.2 and signalled only a marginal rate of growth overall. The pace of expansion also remained much slower than seen on average in the first half of the year.

The muted increase in services activity was often attributed by panel members to relatively subdued demand conditions. Notably, overall new orders rose slightly and at the softest pace in ten months. However, there was a further improvement in foreign demand for Chinese services, with new export business rising at the fastest pace for four months amid reports of increased amounts of overseas visitors.

The slowdown in total new order growth also contributed to a more cautious approach to staffing levels. Service sector employment was unchanged in October, after having risen in each of the prior eight months. Some firms cited the non-replacement of voluntary leavers given muted demand conditions.

Levels of outstanding business meanwhile rose further in October. Though modest, the rate of accumulation was the most pronounced since January. While some firms mentioned that recent increases in new orders had pushed up backlogs, others mentioned that unfinished work had risen as clients had postponed projects.

Cost pressures continued to recede across China's service sector at the start of the fourth quarter. Notably, the rate of input price inflation was the lowest since June 2022 and only slight. Labour, raw materials and transport were among the factors cited by panel members as having increased in cost.

Prices charged by Chinese services companies also remained on an upward trend in October as firms sought to pass on higher input costs to customers. Although modest, the rate of inflation was the quickest since May.

Expectations regarding the 12-month outlook for business activity softened again in October, with overall optimism the lowest recorded since March 2020. Companies that anticipate activity to rise linked this to forecasts of stronger economic conditions both at home and overseas. At the same time, some firms expressed concerns that sluggish market conditions could persist and weigh on performance.

China General Services Business Activity Index

sa, >50 = growth since previous month

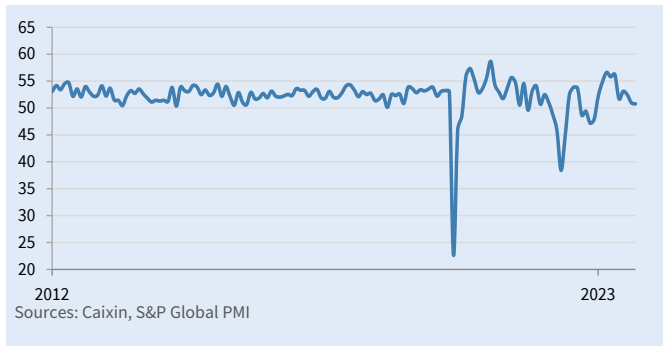


Key findings:

- Business activity increases only slightly
- Sales expand at softest rate in ten months
- Employment stagnates as business confidence wanes

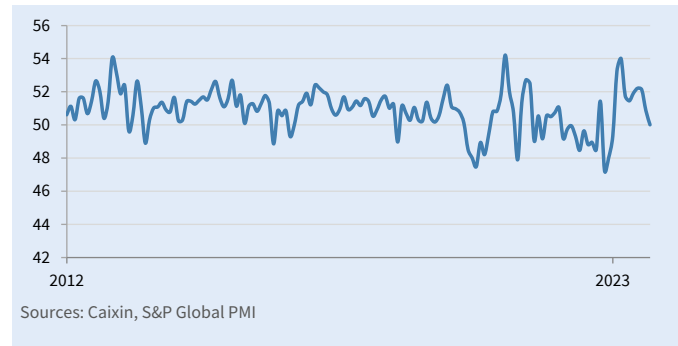
New Business Index

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 rose 0.2 points in October from the previous month to 50.4, remaining in expansionary territory for 10 months in a row though the expansion was muted.

“Services supply and demand grew modestly in October, as market conditions improved much less than expected. The gauge for business activity recorded the second-lowest reading this year, while that for total new business was the lowest in 2023. External demand increased steadily, with the measure for new export business staying above 50 for a second month. This was partly thanks to an easing of travel restrictions that attracted more tourists from abroad.

“Employment was stable. Ending an eight-month streak in expansion, the gauge for employment came in at 50, as the number of service providers expanding their employment was roughly equal to the number of those reducing headcount to cut costs. Stable employment failed to absorb a slight increase in new business. The gauge for outstanding business stayed in expansionary territory and

hit the highest reading since January.

“Prices rose moderately. Although the gauge for input costs remained in expansionary territory for 40 months in a row, the reading in October was the lowest since June 2022, as the increases in the costs of labor, raw materials and transportation were limited. Part of the input cost increase was passed on to customers, with the gauge for output prices remaining above 50 for 18 consecutive months.

“Market sentiment was less upbeat. While remaining in expansion, the gauge for service providers’ expectations about future activity declined for the fourth consecutive month to a new low since March 2020. Service providers were concerned about the economic outlook.”



Caixin China General Composite PMI®

Overall business activity stagnates in October

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 Composite Output Index slipped from 50.9 in September to the neutral level of 50.0 in October, thereby signalling unchanged levels of business activity at Chinese firms at the start of the fourth quarter. This contrasted with rising output in each of the prior nine months. Underlying data showed that a renewed fall in manufacturing production was offset by a slight rise in services activity.

At the same time, composite new business expanded at a marginal pace that was the slowest in ten months, with both goods producers and service providers noting weaker increases in sales. Overall employment fell slightly, driven by a steeper rate of job shedding in the manufacturing sector as service sector payrolls stagnated. Cost pressures meanwhile remained muted, with input prices at the composite level rising only modestly. Nevertheless, companies continued to raise their own selling prices. Though modest, the rate of charge inflation was only fractionally slower than September's 18-month high.

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 for October was 50, down 0.9 of a point from the previous month and once again hitting the lowest reading this year. Demand expanded slightly, but the gauge for total new orders recorded the lowest reading this year. Employment contracted for the second consecutive month, backlogs of work built up, and market confidence weakened again, although input and output prices remained relatively stable. Overall, the market conditions for manufacturing were more sluggish compared with the services sector.”

“Many of China’s economic data for the third quarter exceeded market expectations. Consumption, especially in the services sector, was to some extent resilient. The economy has showed signs of bottoming out, but the foundation of recovery is not solid. Demand is weak, many internal and external uncertainties remain, and expectations are still relatively weak.”

“Policy-wise, China has rolled out measures to stabilize market expectations and boost consumption and investment. More recently, it has decided to issue an additional 1 trillion yuan of treasury bonds to support post-disaster reconstruction and enhance the capacity of disaster prevention, mitigation and relief. This policy will facilitate infrastructure investment and help stabilize the economy, but its impact on improving household income, employment and expectations remains to be seen.”

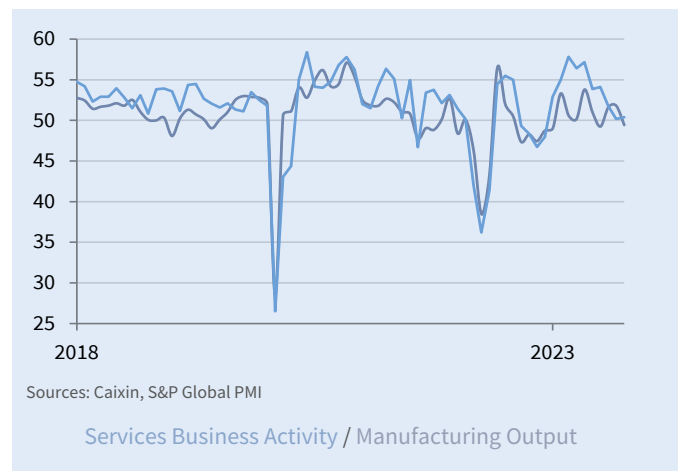
China General Composite Output Index

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@spglobal.com.

Survey dates and history

Data were collected 12-23 October 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.

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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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