

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector growth remains strong in August

Chinese services companies signalled a further marked increase in business activity in August as the sector continued to recover from the recent wave of COVID-19. The upturn was supported by a solid rise in overall sales, as companies reported higher customer numbers as market conditions continued to normalise. International demand remained subdued, however, with foreign sales falling again in August. Prices data showed that input costs rose at the quickest rate in four months, but charges set by services companies rose only slightly.

Business confidence strengthened to a nine-month high in August, with many firms anticipating a further recovery in demand and activity levels in the months ahead.

The seasonally adjusted headline Business Activity Index edged down from 55.5 in July to 55.0 in August, to signal a slightly softer, but still steep, increase in service sector activity. Notably, the rate of expansion was the second-quickest recorded since May 2021. Higher business activity was generally linked to improvements in customer demand and numbers, as disruption due to the pandemic and impact of restrictions continued to recede.

Total new business also expanded at a strong, albeit slightly softer, pace during August. The rate of new order growth was the second-steepest since October 2021 and broadly in line with the series average. There was evidence that the upturn continued to be led by firmer domestic demand, as companies registered a further drop in export sales. Moreover, the reduction in foreign demand was the quickest seen for three months, with a number of firms mentioning that the pandemic continued to weigh on international orders.

As has been the case since the start of 2022, Chinese service providers noted lower staffing levels in August. That said, the rate of decline was similar to that seen in July and only marginal. A number of monitored firms mentioned that employment had fallen as some workers left their roles due to the pandemic, while others commented on decisions not to replace voluntary leavers.

Rising customer demand and higher intakes of new work led to a renewed increase in outstanding business during August. Though only marginal, the upturn contrasted with a slight fall in backlogs during July.

On the costs front, average input prices rose at a solid pace that was the quickest for four months in August. Panel members commented that labour, raw materials, food and marketing costs had all increased in price since the previous month.

Although firms saw a stronger rise in operating expenses, prices charged by services companies rose only fractionally in August. There were reports that pricing power was limited by efforts to stimulate sales as the sector continued to recover from the pandemic.

Chinese service providers remained upbeat that activity levels would rise over the next year. Furthermore, the degree of positive sentiment edged up to its highest since November 2021. Firms often expected that market conditions and client demand will continue to improve as the COVID-19 situation is brought fully under control, and that this will support planned company expansions and new product releases.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

- Business activity growth holds close to July's 15-month high
- Total new orders rise, despite stronger fall in new export business
- Optimism around the outlook hits highest since November 2021

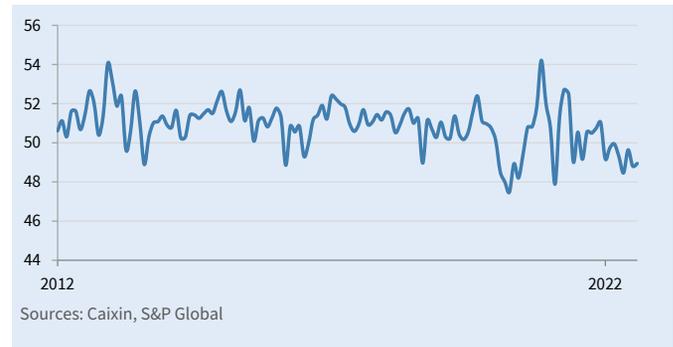
New Business Index

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 (services PMI) came in at 55 in August, down from 55.5 the previous month. The service sector's recovery from a widespread outbreak of Covid-19 earlier in the year continued in spite of new flare-ups.

"Both supply and demand in the sector expanded. The services PMI and the gauge for total new business fell slightly from July, but stayed well above 50. Although some firms mentioned that the recent Covid outbreaks affected their operations, the majority reported that business improved. By comparison, new export business fell for the eighth straight month as the pandemic continued to weigh on overseas demand.

"Employment in the service sector continued to shrink. Companies were reluctant to replace departing employees, some of whom left because of the pandemic. The employment gauge remained in contractionary territory for the eighth consecutive month in August, with a similar rate of decline seen in July. And while market demand remained stable, the shrinking labor force led to an increase in

outstanding business.

"Prices in the service sector rose moderately in August. Costs for raw materials, labor, food and marketing grew by varying degrees, leading to a rise in input costs for the 26th month in a row. Meanwhile, the gauge for fees charged by service providers came in just above 50, indicating that companies passed on a portion of higher costs to clients.

"Market optimism strengthened. The future activity expectations measure came in at the highest in nine months, with companies expressing confidence about further economic recovery from the pandemic."



Caixin China General Composite PMI™

Total business activity growth softens in August

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.

The seasonally adjusted Composite Output Index fell for the second month in a row in August, slipping from 54.0 in July to 53.0. The reading pointed to a solid increase in total Chinese output, albeit one that was the softest for three months. Underlying data showed that services (index at 55.0) continued to outperform manufacturing (50.5), though in both cases rates of expansion softened since July.

August survey data signalled a renewed slowdown in total new business growth at Chinese companies. The upturn in sales was the slowest seen for three months and modest overall, with a fresh decline in manufacturing orders offset by a solid (albeit slightly softer) rise in new business at service providers.

Employment continued to fall modestly at the composite level, with both manufacturers and service providers seeing mild reductions in headcounts. Prices data meanwhile signalled the slowest rise in composite input costs for 27 months, while output charges fell for the second month running.

Comment

Commenting on the China General Composite PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

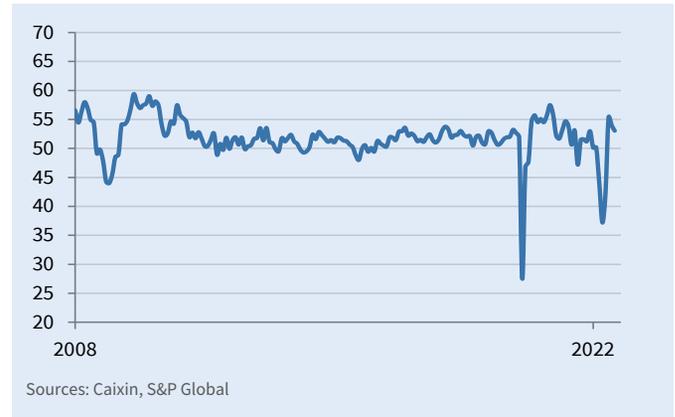
"In August, the Caixin China General Composite PMI dropped to 53 from 54 the previous month. The reading, while marking the second straight monthly drop, remained in expansionary territory. Both supply and demand continued to expand, albeit at a slower pace, with services outperforming manufacturing. Employment remained weak and input costs experienced the slowest increase in 27 months. Market confidence remained stable.

"Rare high temperatures and sporadic Covid-19 outbreaks were the main factors weighing on the economy in August. The impact of the extreme weather was more significant than that of the outbreaks. The resulting power shortages greatly restricted manufacturing production, whereas service providers remained largely unaffected. The manufacturing sector benefited more from lower expenses as a result of falling commodity prices than the service sector.

"Right now, the economy is slowly recovering from a widespread outbreak of Covid-19 in the first half of the year, though it remains under pressure. While the central bank has recently cut key policy interest rates to guide banks to lower financing costs for companies and individuals, the effect will depend on market players' confidence about the future. In addition, with the increase in adverse factors such as recurring Covid-19 cases and natural disasters leading to a sluggish job market and shrinking consumer demand, the government should step up measures such as additional subsidies and assistance for low-income groups."

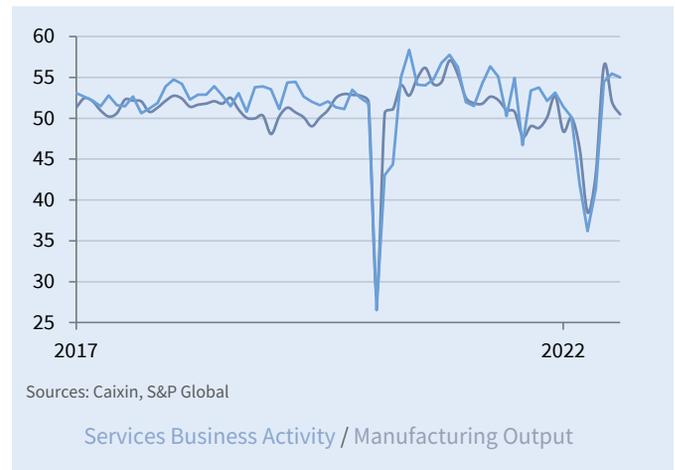
China General Composite Output Index

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@ihsmarkit.com.

Survey dates and history

Data were collected 12-22 August 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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