

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

COVID-19 restrictions lead to slight drop in services activity

Efforts to curb the spread of COVID-19 across China led to a renewed fall in service sector activity in September, as firms noted disruption to operations and restrictions on travel. New business also declined for the first time in four months, albeit modestly, despite a slight improvement in foreign demand. Subdued overall market conditions led firms to trim their staffing levels again in September, while backlogs increased slightly. At the same time, companies signalled only mild increases in input costs and output charges.

Although companies generally anticipate business activity to rise over the coming year, the degree of optimism dipped to its lowest since March.

At 49.3 in September, the seasonally adjusted headline Business Activity Index fell from 55.0 in August and signalled a fresh decline in service sector activity across China. Though only slight, it marked the first reduction in output since May, and contrasted with steep increases in activity in the prior three months.

Companies that reported reduced activity frequently commented that the pandemic and subsequent measures to contain the virus had restricted operations and weighed on demand in September.

Total new work likewise fell for the first time in four months, albeit modestly. COVID-19 containment measures, including lockdowns, temporary closures and mobility restrictions, were all said to have dampened customer demand and client numbers in September. An improvement was seen with regards to external demand, however, as new export business expanded slightly at the end of the third quarter, with some firms noting improved demand across some international markets.

Lower operational requirements, efforts to reduce costs and staff resignations drove a further fall in service sector employment during September. Though modest, the rate of job shedding was the quickest seen since May.

Although staffing levels fell, companies signalled little pressure on operating capacities. Outstanding workloads rose only marginally for the second month in a row.

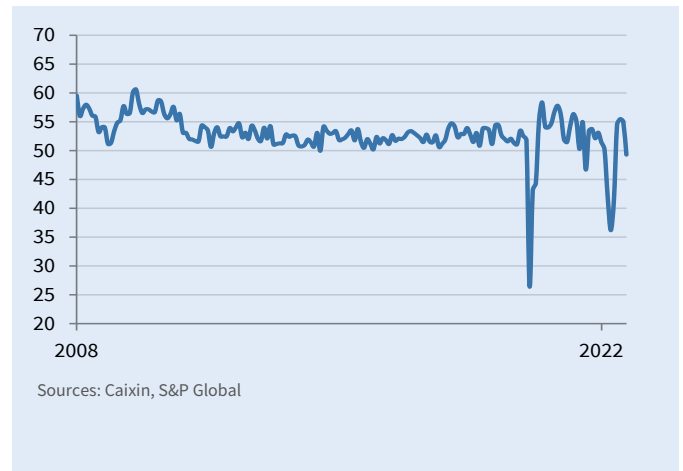
Average operating expenses rose for the twenty-seventh month running in September. Higher input costs were generally linked to greater costs for raw materials and labour. That said, the rate of inflation edged down to the lowest since June and was only mild.

Fees charged by services companies rose at the quickest pace for five months in September, as some firms looked to pass on higher expense to clients. Nevertheless, the rate of inflation remained marginal overall.

Business confidence regarding the 12-month outlook for business activity moderated to a six-month low in September. While many firms were confident of a strong post-pandemic recovery over the next year, others expressed concerns over how long the virus and containment measures will impact operations and customer demand.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

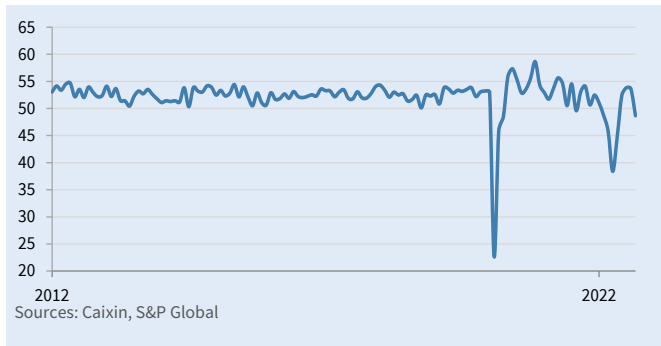
Business activity and new orders both fall for first time since May

Employment declines further

Inflationary pressures remain muted

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 PMI in September dropped 5.7 points from the previous month to 49.3. Although the Covid situation improved in Hainan province, the severity of outbreaks worsened in many other areas, ending a three-month expansion of business activities in the services sector.

“Supply and demand contracted in the sector. From June to August, business activities were recovering at an accelerating pace from the last round of Covid outbreaks, so production and demand expanded quickly. But in September, Covid outbreaks emerged in many areas and containment measures were tightened, impacting both services supply and demand.

“The gauges for business activity and total new business both fell into contractionary territory, and were down around 5 points compared with the average readings in the previous three months. The pandemic also limited overseas demand, although the gauge for new export orders rose above 50 for the first time in nine months.

“Employment continued to shrink. Insufficient market demand

pushed firms to cut staff to shore up efficiency. In September, the gauge for employment stayed in contractionary territory for the ninth consecutive month and hit the lowest since May. Because of the pandemic, some businesses couldn’t deliver on time, and backlogs grew moderately.

“Prices in the services sector rose slightly. Cost pressures on service firms came mainly from rising raw material prices and labor costs. Input costs remained in expansionary territory for the 27th consecutive month, although the expansion was moderate this time. Part of the increase in input costs was passed through to prices charged, as the gauge for the latter continued expanding like it did in the previous four months, though the increase was mild.

“The market was much less optimistic. Expectations for future activities recorded the lowest reading in six months and the second-lowest since August 2020. Entrepreneurs’ concerns continued to stem from recurring Covid outbreaks and the impact of related controls on the market.”



Caixin China General Composite PMI™

Overall business activity falls for first time since May

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 slipped from 53.0 in August to below the neutral 50.0 mark at 48.5 in September, to signal a renewed fall in overall Chinese business activity. Though modest, it marked the first reduction for four months. The drop in output was broad-based across the manufacturing (47.3) and service sectors (49.3), with the former seeing the steeper rate of contraction.

Composite new business also fell at the end of the third quarter. The modest reduction was driven by a renewed fall in service sector sales, while new work declined at a quicker pace at goods producers. Overall employment likewise fell, and at the quickest rate since February 2021.

Composite input costs rose at a fractional pace that was the weakest in 28 months, as a softer rate of inflation in the service sector coincided with a further drop in manufacturing expenses. At the same time, output charges fell for the third successive month, driven by a solid rate of discounting at manufacturers.

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 48.5 in September, down 4.5 points from the previous month and the first reading below 50 in four months.”

“Supply, demand and employment all contracted to different degrees. The rise in costs for the services sector offset the decline in those for manufacturing, thus input costs for all surveyed enterprises remained basically stable. The gauge for prices charged was below 50, but the contraction was moderate. While the market leaned to the optimistic side, the level of optimism was the lowest in the past few months due to the pandemic.”

“The economy is facing more downward pressure recently as there are more unfavorable factors. The current pandemic situation is still severe and complex, and the negative impact of Covid controls on the economy is still pronounced. Since September, there have been Covid outbreaks in many regions, with the number of confirmed cases shooting up in some key areas compared with the previous month. Market supply and demand have been under pressure, while economic recovery has stood on shaky ground.”

“What’s different about this round of Covid outbreaks is that it hit the manufacturing sector harder than it did services, and the decline in raw material prices was also more palpable in manufacturing.”

“At present, the major challenges in the economy are low employment, sluggish demand, and unstable expectations. In view of this, policy implementation should focus on promoting employment, granting subsidies, as well as boosting demand and market confidence by sending policy signals.”

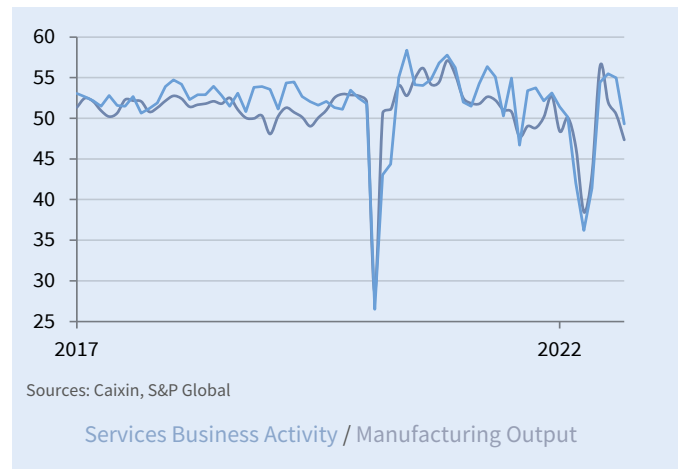
China General Composite Output Index

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 September 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>

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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