

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Business activity continues to fall markedly in May

Latest PMI data indicated that China's service sector experienced further marked declines in business activity and new orders in May due to measures to contain the recent uptick in COVID-19 cases. That said, rates of reduction were not as severe as those seen in April. Nonetheless, companies continued to trim their staffing levels, while ongoing disruption to business operations drove a steeper increase in backlogs of work. Prices data showed that average input costs rose at a softer pace, while prices charged by services companies rose only slightly.

Business expectations regarding the 12-month outlook for output improved in May, picking up to its highest for three months, with a number of firms hoping for a strong recovery once the virus is contained and restrictions are lifted.

The seasonally adjusted headline Business Activity Index rose from a 26-month low of 36.2 in April to 41.4 in May, to signal a third successive monthly decline in service sector business activity in China. Although not as sharp as that seen in April, the pace of reduction was nonetheless the second-sharpest seen since February 2020, during the initial phase of the COVID-19 pandemic. Companies continued to note that operations were heavily impacted by pandemic-related restrictions, which included temporary closures and limiting mobility.

Total new business fell for the fourth month in a row in May. The rate of reduction eased from April's 26-month record but remained sharp overall. Panel members continued to cite the impact of COVID-19 restrictions on client numbers and overall demand conditions when explaining the latest fall in sales. At the same time, new business from abroad also fell at a softer, but still marked rate midway through the second quarter.

Lower operational requirements led to a further drop in service sector employment in May. Though modest, the rate of job shedding was the quickest seen for 15 months. Meanwhile, ongoing disruption to operations led to a sustained increase in outstanding business. The rate of backlog accumulation was in fact the steepest seen since February 2020, albeit moderate overall.

Average input costs faced by service providers in China increased again in May. That said, the rate of inflation moderated to a nine-month low. Higher cost burdens were often linked to greater prices for labour, raw materials, food, energy and transportation. Companies passed on some of these additional costs through to clients in the form of higher output charges. Though only slight, the uptick in fees contrasted with a decline during April.

When assessing the 12-month outlook for business activity, services companies remained largely upbeat in May. The degree of positive sentiment was the strongest seen for three months, largely due to hopes of a strong recovery once the pandemic is brought under control and market conditions normalise. That said, overall optimism remained below the long-run series average.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

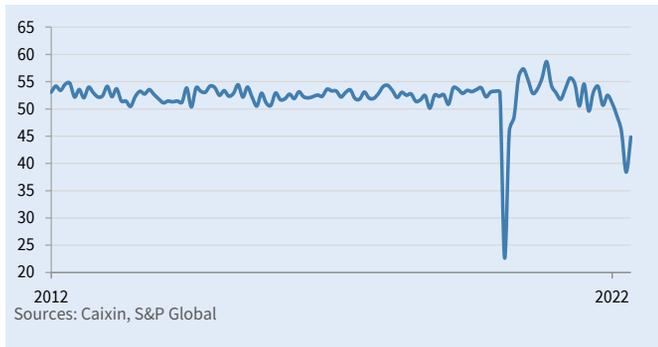
Services activity falls at softer, but still sharp rate amid COVID-19 restrictions

Drop in overall new work moderates

Input cost inflation eases to nine-month low

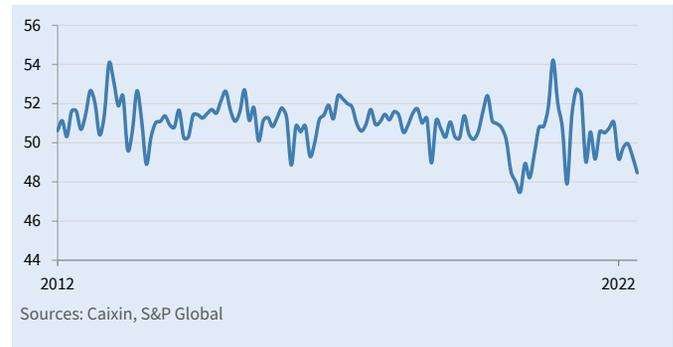
New Business Index

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 41.4 in May, up from 36.2 the previous month. May’s reading was the second lowest since February 2020 as China’s Covid-19 epidemic still weighed heavily on services activities.

“Both supply and demand in the services sector shrank further. The services PMI and the gauge for total new business in May both rose from April’s recent lows, but the May readings were still well below 50. That shows local Covid outbreaks were still hurting the services sector. Due to the effects of epidemic control measures, especially travel restrictions, the gauge for new export business remained in negative territory for the fifth straight month.

“Services employment contracted. Unlike the slower rates of decline in services demand and supply, the measure for employment in May fell further to its lowest since February 2021. The employment measure has remained in contractionary territory since the beginning of this year. The impact of the epidemic has hit the labor market. Enterprises weren’t much motivated to increase hiring. As a

result, outstanding business in the services sector grew further.

“Input costs and prices charged in the services sector rose. The measure of input costs remained in expansionary territory for the 23rd consecutive month. Labor costs and the prices of raw materials, food, energy and freight were relatively high. Enterprises were under higher cost pressure. Prices charged by service providers rose. The gauge of prices charged increased into positive territory, indicating companies passed on a portion of their costs by adjusting services prices.

“Businesses were moderately optimistic. Entrepreneurs overall were still confident that the Covid-19 epidemic will be brought under control, though some remained concerned about a resurgence of Covid-19 in the future.”



Caixin China General Composite PMI™

Composite output falls at softer pace in 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.

At 42.2 in May, the seasonally adjusted Composite Output Index rose from 37.2 in April to signal a softer, but still sharp, decline in overall Chinese business activity. Notably, the rate of contraction was the second-steepest since February 2020, and extended the current sequence of falling output to three months. Sector data showed that rates of reduction moderated across both the manufacturing and service sectors, with the latter seeing the steeper rate of decline overall.

Total new orders meanwhile fell solidly, albeit with the rate of decline the softest for three months. Composite employment fell at a pace that, while modest, was the quickest seen since February 2021, with both manufacturers and service providers noting slightly quicker falls in headcounts during May.

Overall, inflationary pressures softened in May, with average input costs rising at the slowest rate since February, while prices charged fell slightly for the second month running, driven by price discounting at manufacturers.

Comment

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

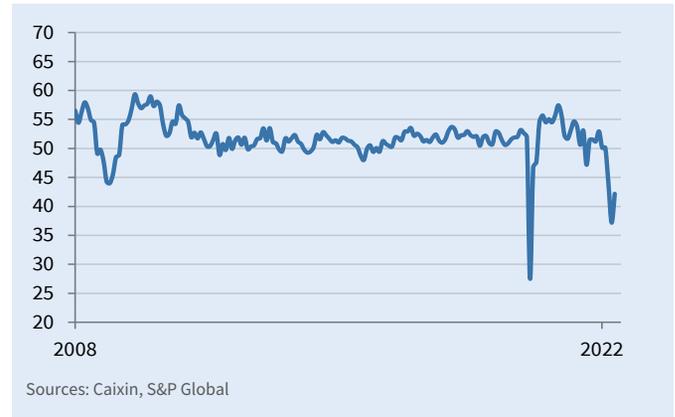
“In May, the Caixin China General Composite PMI came in at 42.2, up from 37.2 the previous month. May’s reading was its third lowest since 2005, after those of February 2020 and April 2022. The pandemic weighed on supply as well as domestic and overseas demand. Employment weakened further. Outstanding business grew. And business costs remained high.

“Overall, in May, local Covid outbreaks continued and manufacturing and services activity improved slightly, but continued to contract, with services hit harder. Demand was slightly stronger than supply. The fallout from the epidemic on market supply and demand has been transmitted to the labor market, which is deteriorating at a faster pace in both the manufacturing and services sectors. Disrupted supply chains and longer logistics delivery times have yet to improve. Businesses remained under great cost pressure.

“The damage from the latest wave of domestic outbreaks may surpass that of 2020. It’s necessary for policymakers to pay closer attention to employment and logistics. Removing obstacles in supply and industrial chains and promoting resumption of work and production will help to stabilize market entities and protect the labor market. Also, the government should not only offer support to the supply side, but also put subsidies for people whose income has been affected by the epidemic on the agenda.”

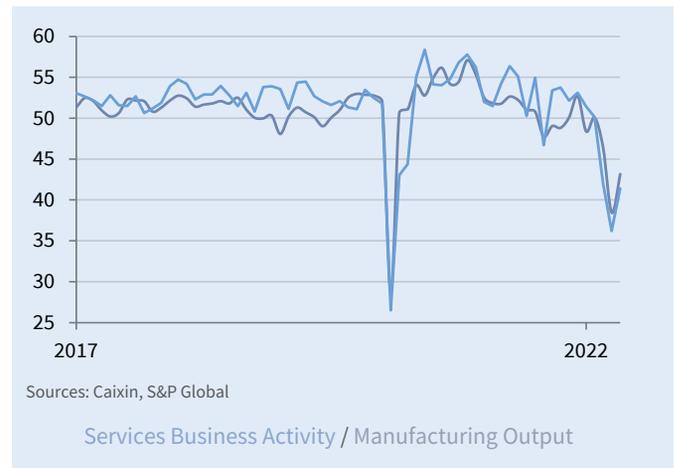
China General Composite Output Index

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 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 12-23 May 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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