Services activity expands at quickest rate for 15 months

July survey data signalled a further recovery in Chinese services activity amid looser pandemic restrictions and the return to more normal business conditions. Notably, the rate of output expansion quickened to a 15-month high as new order intakes also rose at a faster pace. However, the pandemic continued to dampen foreign demand, which fell modestly in July. Despite the improved trends in output and overall orders, firms cut their staffing levels further, while backlogs fell slightly. Input costs meanwhile rose at a stronger pace, though prices charged increased only slightly.

Firms were generally confident that business activity would rise over the next year, with overall sentiment hitting an eight-month high.

The seasonally adjusted headline Business Activity Index picked up from 54.5 at the end of the second quarter to 55.5 in July, to signal a second successive monthly increase in service sector output. Furthermore, the rate of growth was the sharpest seen since April 2021 and above the series average (53.8). Anecdotal evidence suggested that the latest upturn in activity was driven by a further recovery in operating conditions and client demand following the easing of COVID-19 containment measures.

Total new business likewise expanded at a quicker pace in July. The solid increase in overall sales was the fastest seen since October 2021, with firms often commenting on improved demand conditions and rising customer numbers. Companies indicated that the expansion in new work was predominantly led by firmer domestic demand, however, as new export work declined for the seventh successive month.

Although firms saw sustained increases in activity and new orders, they maintained a relatively cautious approach to staffing levels, which fell modestly in July. A number of firms commented on efforts to contain costs and decisions to not replace voluntary leavers.

At the same time, firms reported reduced pressure on capacity, as evidenced by a renewed fall in backlogs of work. Though marginal, it was the first time that the level of work-in-hand (but not yet completed) had fallen in over a year. Lower amounts of unfinished work were often linked to the resumption of operations as COVID-19 restrictions were rolled back.

Higher prices for fuel, food, raw materials and staff drove a further increase in operating expenses during July. The rate of cost inflation accelerated for the first time since March, but was moderate overall. At the same time, fees set by Chinese services companies rose at a marginal rate that was similar to those seen in the prior two months.

When assessing the 12-month outlook for business activity, service providers in China were highly optimistic in July. Notably, the degree of positive sentiment hit its strongest since November 2021. Projections of higher output were generally linked to expectations that the COVID-19 virus will be fully contained, and customer demand will strengthen further. There were also mentions that planned company expansion and supportive state policies would help to drive growth.
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) rose 1 point to 55.5 in July as an improved Covid situation sped up the services sector recovery.

“Supply and demand in the services sector expanded. Although Covid restrictions hurt the businesses of some service companies, the economic fallout from this round of outbreaks was fading. Gauges for business activity and new business were both in expansionary territory in July, hitting their highest readings in 15 and nine months respectively. The pandemic situation overseas restricted external demand, with the measure for new export orders in contractionary territory for the seventh straight month.

“The job market in the services sector shrank. The recovery in supply and demand failed to reduce unemployment. In an effort to save on labor costs, companies were cautious about expanding their staff. The measure for employment remained in contractionary territory for the seventh straight month, lower than in June.

“Input costs and prices charged were stable. Overall, cost pressures grew marginally as food prices and wages increased, although the prices of some bulk commodities fell. The gauge for input costs remained in expansionary territory for the 25th consecutive month. Like in the previous two months, the gauge for prices charged was stable with a reading just above 50.

“Business owners held a more positive outlook. The gauge for future activity expectations hit its highest point in eight months. However, concerns over the possibility of future Covid outbreaks remained.”
Output rises solidly across China in July

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 54.0 in July, the seasonally adjusted Composite Output Index fell from June’s 18-month high of 55.3, but nonetheless signalled a solid expansion in overall Chinese business activity. Data broken down by sector showed that a quicker rise in services activity (55.5) was offset by a marked slowdown in manufacturing production growth (52.0) in the latest survey period.

Total new order growth meanwhile accelerated slightly on the month, but remained modest overall. While service providers saw a solid upturn in sales, manufacturers noted only a marginal rise in new order intakes.

Quicker falls in employment across both manufacturing and service sectors led to the fastest reduction in composite employment for 17 months.

Prices data pointed to the softest rise in overall input costs for just over two years, while output charges fell slightly amid price 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 54 in July, down 1.3 points from the previous month and still in expansionary territory. Supply and demand continued to improve with supply stronger than demand. Employment remained weak. Business costs were still on the rise. Confidence in the market remained stable.

“In general, the eased Covid situation and restrictions facilitated a continuous recovery in the economy. The services sector, which had been previously hit harder by the outbreaks than manufacturing, showed stronger improvement. Supply and demand continued to improve with supply stronger than demand. The labor market shrank greatly, adding to employment pressures. Business costs steadily climbed while prices charged remained stable, posing challenges for company profits. The market held on to positive sentiment, even with concerns about the outlook for Covid and the economy.

“Major macroeconomic indicators in the second quarter showed that the short-term economic shock of the latest round of Covid outbreaks was fading. The third quarter will therefore be a crucial period to get the economy back on track. The manufacturing and services sectors improved for the second straight month in July, though the foundation remained weak. As the authorities have made it clear that no ultra-massive simulative measures will be forthcoming, effective implementation of existing policies is a more practical option. Moreover, the labor market remained under pressure and the financial situation of low-income groups deteriorated. Therefore, policies should focus on higher degrees of job market stabilization, subsidy issuance and temporary relief measures.”
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 12-21 July 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.

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