Caixin China
General Services
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October saw a sustained slowdown in activity across the Chinese service sector, as ongoing efforts to stop the spread of COVID-19 disrupted business operations and weighed on demand. Positively, there was a rise in services employment for the first time in 2022, with firms showing slightly more optimism towards the outlook.

On the inflation front, October data showed a slight pick-up in the rate of increase in prices charged by service providers to an eight-month high. This was despite a softening of cost pressures across the sector.

After falling below the neutral 50.0 threshold for the first time in four months in September, the seasonally adjusted headline Business Activity Index showed the downturn in China’s service sector extending into October. At 48.4, down from 49.3, the latest reading was the lowest since May. That said, the rate of decline remained modest and far softer than seen during the much larger outbreak of COVID-19 in the spring.

Containment measures associated with the latest spate of infections acted to suppress demand during October. This was highlighted by a second successive monthly reduction in inflows of new business at Chinese services firms. The rate of decline eased and was only marginal, however. The slower fall in overall inflows of new work came despite a renewed downturn in new business from abroad.

Efforts to expand staffing capacity and enhance sales capabilities contributed to a rise in employment across the Chinese service sector in October. Although only modest, the increase in workforce numbers was nevertheless the most marked since May 2021 and ended a run of job losses stretching back to the start of the year.

Service sector businesses meanwhile reported a third straight monthly rise in backlogs of work at the start of the fourth quarter. The increase, which was only marginal and the weakest in the current sequence, was attributed in part to COVID-19 controls preventing the completion of work.

Turning to prices, October’s survey data pointed to a slightly faster rise in average fees charged by services companies in China. The rate of inflation was the quickest since February and above the series long-run average. Where output prices increased, this often reflected the pass-through of higher costs to customers, anecdotal evidence showed. Alongside a rise in oil-related prices, firms reported higher wage bills leading to an increase in operating expenses. That said, the overall rate of cost inflation was the second-slowest in the past 14 months.

Looking ahead, October saw a slight uptick in firms’ expectations for activity over the coming year. However, coming off a six-month low in September, the degree of optimism remained relatively subdued, amid ongoing concerns about the pandemic’s impact on growth prospects and challenging global market conditions.

Key findings:
- Business activity and new orders both post back-to-back moderations
- Employment returns to growth
- Modest rises in input costs and output charges
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) in October dropped 0.9 points from the previous month to 48.4. With Covid prevention and containment measures tightened in the face of sporadic outbreaks in many areas, services activity remained in contractionary territory for the second consecutive month.

"Both supply and demand contracted in the sector. The gauges for business activity and total new business each fell below 50 for the second consecutive month. Contraction on the supply side accelerated, while the demand-side shrinkage slowed slightly. Surveyed companies said the Covid outbreaks remained the main reason. The pandemic also curbed overseas demand, with the gauge for new export orders in contractionary territory for the ninth time in the past 10 months.

"Employment in the services sector improved, with the gauge rising above 50 for the first time in 2022. Despite being marginal, the improvement reflected the efforts of service providers in expanding production capacity and sales. As a result of Covid restrictions, some businesses couldn’t make deliveries on time, which caused backlogs to grow moderately.

"Costs and prices charged in the sector extended the slight increase seen in September. Cost hikes mainly resulted from a rebound in crude oil prices, while the rise in prices charged was a reflection of the change in costs. It is worth noting that the gauge for input costs was above that for prices charged in 24 out of the past 25 months.

"Optimism remained limited in the market. The gauge for expectations for future activities rebounded from September’s six-month low, but was still significantly lower than the long-term average. Entrepreneurs’ concerns stemmed from recurring Covid outbreaks and a possible global recession."
Broad-based slowdown in activity 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 seasonally adjusted Composite Output Index remained below the neutral 50.0 mark in October, registering 48.3 from September’s 48.5. This was the lowest reading since May, albeit still signalling only a modest downturn. The slowdown was broad-based by sector.

Inflows of new business also faltered in October, in part due to a further (albeit slower) decline in inflows of new work from abroad. By contrast, employment rose for the first time in seven months, driven by renewed job creation in the service sector.

A first rise in manufacturing purchasing costs for three months saw the overall rate of input cost inflation tick up from September’s 28-month low, although it remained subdued. Average prices charged were meanwhile little-changed, having fallen throughout the third quarter.

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 48.3 in October, down 0.2 points from the previous month and the lowest since May.

“Both supply and demand contracted to different degrees. The overall employment level increased slightly thanks to an expansion in employment of the services sector. Input costs for all surveyed enterprises rose slightly, while prices charged remained stable. Market sentiment improved but was still below the long-term average.

“Overall, the negative impact of Covid controls on the economy lingered, and the economy was faced with increasing downward pressure. In October, activities in the manufacturing and services sectors continued to shrink, while supply and both domestic and overseas demand contracted. Business costs increased. Service providers were in a better position than manufacturers in terms of prices charged and employment.

“The recently released economic data for the third quarter showed that the economy was recovering, as several primary indicators stabilized and were slightly better than market expectations. However, the current domestic and international political environments remain complicated, and unfavorable factors affecting economic development have increased. In particular, the spread of the coronavirus in many regions significantly restricts supply chains and dampens demand. Ultimately, there is still tremendous downward pressure on the economy and the foundation for economic recovery is not yet solid.

“President Xi Jinping’s report to the Communist Party of China’s 20th National Congress emphasized that “development is the party’s top priority in governing and rejuvenating China.” This is a message that can help stabilize long-term market expectations. At present, demand and employment are under pressure, and policies to revitalize them need to be strengthened, as implied in the report, which says that the country’s leaders will enhance the coordination between fiscal and monetary policies; expand domestic demand; better leverage consumption to develop the economy; and work on using investment to improve the supply structure.”
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 October 2022.

Data were first collected November 2005.

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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