

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector growth sustained at marked rate in July

Growth of the Chinese service sector remained elevated during July as the economy maintained its recent recovery from the coronavirus disease 2019 (COVID-19) pandemic. Although easing from June's highs, growth rates of new business and activity remained strong which helped to support business confidence. Sentiment about the forthcoming 12 months was the highest in over five years.

However, less positive, was another fall in employment as firms sought to boost productivity at a time of mildly rising costs but further falls in output charges.

The headline seasonally adjusted Business Activity Index recorded 54.1 in July, down from 58.4 in June. Whilst down on the previous month's more than 10-year record, the index again signalled a marked rise in activity that was in line with the survey's long-term trend. The result extended the current sequence of growth to three months as the economy continues to recover from the effects of the COVID-19 pandemic.

The continued resumption of economic activities in July helped to drive another month of new business growth. Although the rate of expansion eased from June's near decade high, levels of incoming new work placed with Chinese service sector companies rose markedly (and for the third month in succession). Growth was, however, predominately driven by domestic markets. Ongoing challenges related to COVID-19 was reported to have undermined foreign sales.

Mild capacity pressures were signalled by the latest data, as backlogs of work increased for a second month in succession. Growth was linked by panellists to the latest gains in incoming new work.

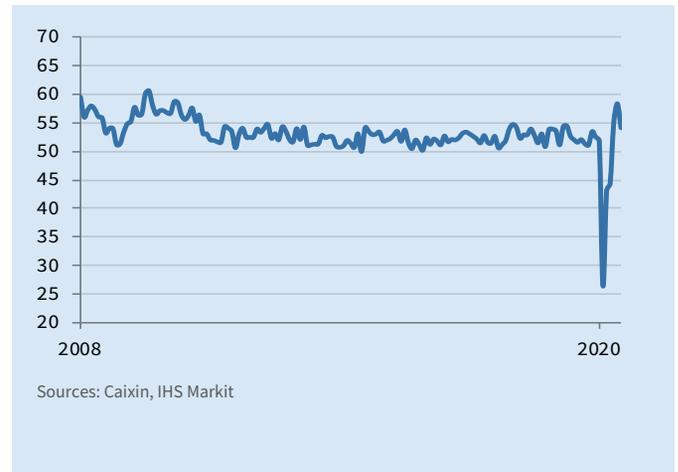
However, firms chose to focus on increasing productivity to deal with higher workloads rather than adding to their workforce numbers. Latest data showed a slight decline in staffing levels during July, which marked the sixth successive month in which employee numbers have fallen.

Chinese service providers also faced some mild margin pressure in July. According to the latest data, average input costs rose for the first time in three months amid reports of higher employee costs. In contrast, output charges were reduced following a slight increase in June. There were reports from the survey panel that the mild reduction in output charges was linked to efforts to support sales during the ongoing recovery from the pandemic.

Finally, confidence surrounding future activity continued to strengthen during July. Latest data showed that sentiment was the highest recorded by the survey since March 2015. There were reports from panellists that the worst effects of the pandemic should now have passed, with firms widely expecting market and economic activity to continue on a positive growth path over the next 12 months.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

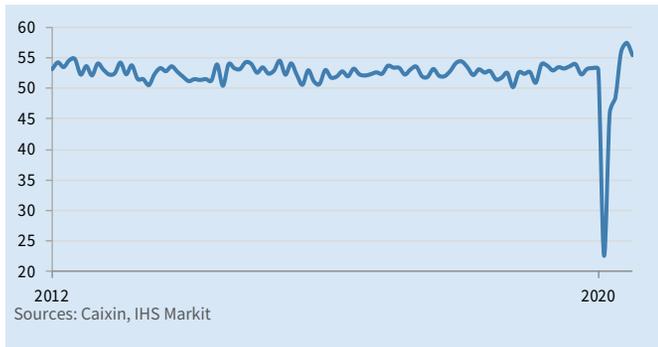
New business also rises sharply

Productivity focus weighs on labour market

Business confidence at highest in over five years

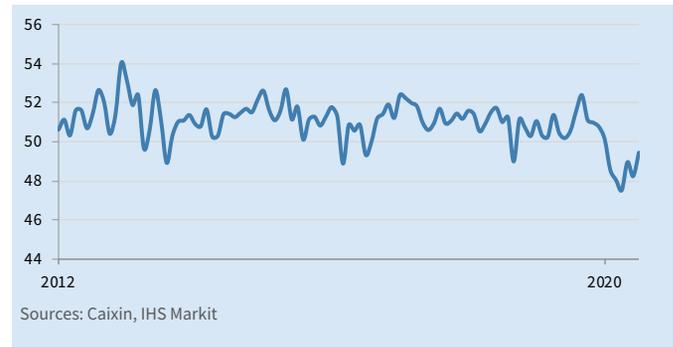
New Business Index

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 came in at 54.1 in July, down from a 10-year high of 58.4 the previous month. It remained in expansionary territory, pointing to a continued rapid recovery of the services sector as the domestic Covid-19 epidemic has largely been brought under control.

1) Both the supply of, and demand for, services grew, but weak external demand was a drag. The business activity index and the gauge for total new business both expanded for the third month in a row, maintaining strong momentum. The measure for outstanding business stayed in expansionary territory for a second straight month and rose from June. However, unlike the previous month, the gauge for new export business dropped sharply into contractionary territory as the pandemic continued to hit other nations hard, dragging down overseas demand.

2) Employment continued to shrink. The employment gauge stayed in negative territory for the sixth straight month as the recovery of the services sector had a limited uplift on the job market. But the July reading was closer to 50, the line between negative and positive territory, than any of the preceding five months. Companies said in the survey that controlling costs remains a priority, so they are cautious about adding staff. Input costs rose while the prices that service providers charged customers declined slightly, suggesting that pressure on service firms' profitability was still high.

3) But businesses were highly confident about the economic outlook. The gauge for business expectations rose further into expansionary territory and reached the highest point since March 2015. Service providers generally believed that the toughest times had passed, and were optimistic about their prospects over the next 12 months as economic activity edges closer back to normality."

Caixin China General Composite PMI™

Fastest rise in new work since start of 2011 drives further growth of economy

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.

July's Composite Output Index fell slightly to 54.5, from June's 55.7, but nonetheless continued to signal a marked rate of growth in Chinese business activity. The milder expansion reflected a weaker gain in services activity compared to June. Manufacturing output in contrast rose to the strongest degree since January 2011.

The rate of increase in aggregate new work was also the best since the start of 2011, with similarly marked gains in sales recorded across both monitored sectors. However, ongoing growth failed to encourage firms to take on additional staff, with employment levels falling slightly across both manufacturing and service sectors.

Meanwhile, prices data showed that input costs rose solidly, and at the strongest pace since November 2018. Output price inflation accelerated, though remained at a marginal level.

Comment

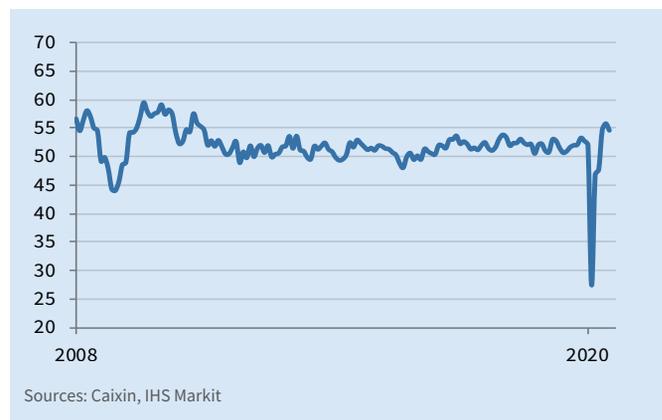
Commenting on the China General Composite PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

"The Caixin China Composite Output Index came in at 54.5 in July, down slightly from the previous month, as both the manufacturing and services sectors continued recovering, especially manufacturing. New orders kept increasing and the backlog of work also rose. The gauge for business expectations remained high, suggesting that companies were confident about the economic recovery. Overseas demand continued to be troubled for both sectors.

"Employment was still a key problem. The combination of expanding demand and production with shrinking employment has dogged the economy for several months. In hard times, enterprises look to shore up profits by cutting costs, like labor. Therefore improving employment requires more time and greater confidence among businesses. At a July meeting with representatives of the business community, President Xi Jinping said a slew of measures have been introduced to support market entities, and called for more policies to stimulate them, ensuring their survival and development."

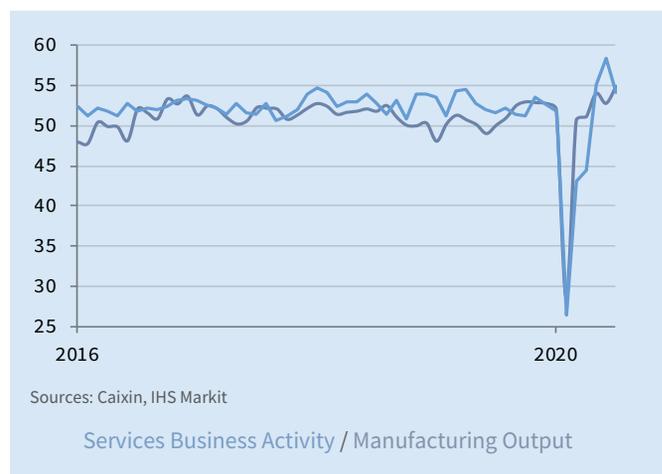
China General Composite Output Index

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 IHS Markit 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 13-23 July 2020.

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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About IHS Markit

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