Caixin China
General Services
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Chinese services companies signalled a renewed fall in business activity during August, as rising COVID-19 case numbers at home and abroad impacted operations and demand. Notably, it was the first time that output and new work had fallen since April 2020. At the same time, companies reported a slight reduction in workforce numbers, which contributed to a sustained rise in outstanding business. Prices data meanwhile highlighted a softer rise in input costs, while prices charged fell slightly due to efforts to secure new business.

The headline seasonally adjusted Business Activity Index fell from 54.9 in July to 46.7 in August, to indicate a renewed and solid decline in service sector output. The reading also marked the first reduction in business activity since April 2020. Panel members indicated that efforts to contain the recent resurgence of COVID-19 cases both at home and overseas impacted activity levels in August.

In line with the trend for business activity, total new orders received by Chinese services companies fell midway through the third quarter. Though only slight, it marked the first fall in sales for 16 months. Survey respondents often mentioned that the pandemic had dampened customer demand. New export business was meanwhile broadly unchanged for the second month running.

Service providers in China signalled a slight reduction in employment for the second time in the past three months during August. Some firms commented on readjusting their workforce numbers in line with business activity, while others stated that they had not replaced voluntary leavers.

Lower staffing levels and pandemic-related disruption led to a second successive monthly rise in the amount of outstanding business at services companies. The rate of accumulation eased since July, however, and was only marginal.

August survey data signalled a slower increase in cost burdens faced by Chinese service providers. Input prices rose modestly overall, which was largely linked to higher staffing costs, but also increased transport fees.

Output prices meanwhile fell in August, following a solid increase in the previous month. Though only slight, it was the second time in the past three months that charges had declined. According to panel members, efforts to attract and secure new business had led firms to reduce their output prices over the month.

Services companies in China remained upbeat towards the year-ahead outlook in August, as firms generally anticipated activity would increase. That said, the degree of positive sentiment dipped from July and remained below the series average. While many businesses forecast that output will expand as the pandemic is brought under control globally, there remained concerns over how long this will take, and how long it will take for market conditions to normalise.

Key findings:

- Business activity and new orders both fell amid uptick in COVID-19 cases
- Companies reduce their staffing levels slightly
- Input costs rise at slower pace, output charges decline
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 plunged to 46.7 in August from 54.9 the previous month. It was the first time that services activity shrank since April 2020, reflecting disruptions caused by the Covid-19 flare-ups that appeared in parts of China starting in late July.

"In the services sector, supply and demand both shrank. The gauges for business activity and total new business plummeted into contractionary territory for the first time in 16 months, with supply falling at a steeper pace than demand. Exports remained stable overall, though surveyed enterprises said the recent outbreaks had hurt foreign trade. The gauge for new export business was slightly above 50.

"The job market for services weakened as the measure for employment fell into negative territory for the second time in three months, though the drop was slight. Companies cut staff and outstanding business grew.

"Service costs were still under great pressure amid elevated labor and transportation costs amid the Covid-19 resurgence. In August, input costs rose for the 14th consecutive month. Meanwhile, sluggish market demand limited businesses’ bargaining power, causing prices charged by service providers to slip after a month of growth.

"Businesses remained optimistic. In August, the measure for business expectations was 3 points lower than the long-term average. Surveyed firms hoped that the outbreaks could be contained quickly so they could see business improve."
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 Composite Output Index posted 47.2 in August, down from 53.1 in July, to signal a renewed fall in overall business activity across China. Though modest, it marked the first decline in output since April 2020. The dip in the headline index was driven by renewed falls in activity across both the manufacturing and service sectors, with the latter noting the steeper rate of decline.

Total new work also decreased for the first time in 16 months, albeit marginally. Manufacturers recorded a second successive monthly fall in new orders, while services companies recorded the first drop in sales since April 2020 amid reports that a resurgence of COVID-19 cases had dampened demand.

Composite employment fell slightly, driven by marginal job cuts at both manufacturers and service providers. Overall input costs rose at a softer, but nonetheless solid, pace, while output prices increased only slightly.

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 47.2 in August, lower than 53.1 the previous month and the first drop into contractionary territory since April 2020. Supply, total demand, overseas demand and employment all shrank, indicating the immense pressure on the services sector stemming from the reappearance of Covid-19.

"The Covid-19 resurgence has posed a severe challenge to the economic normalization that began in the second quarter of 2020. Both manufacturing and services shrank in August, with the latter hit harder than the former. Supply fell and demand was under pressure along with exports. The job market weakened slightly, though it managed to maintain stability overall. Inflationary pressure remained high as raw material prices were still high and measures to counter the outbreaks pushed up transportation costs. Surveyed manufacturers and service providers were only moderately optimistic about the economic outlook.

"Official economic indicators for July were worse than the market expected, indicating mounting downward pressure on economic growth. Authorities need to take a holistic view and balance the goals of containing Covid-19, stabilizing the job market, and maintaining stability in prices and supply."
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.

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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