China’s service sector expanded at a stronger pace in March, with firms reporting the steepest increases in both activity and overall sales for three months. Panel members often attributed the upturn to a further recovery from the pandemic, which in turn boosted new projects and client numbers. Higher new orders led to greater pressure on capacities, with backlogs rising for the first time in five months, which prompted firms to add to their staffing levels. Prices data signalled solid increases in both input costs and output charges.

Optimism regarding the 12-month outlook for activity meanwhile hit its highest for over a decade amid hopes of a strong recovery from the coronavirus disease 2019 (COVID-19) pandemic.

The headline seasonally adjusted Business Activity Index posted 54.3 in March, up from 51.5 in February, to signal a solid increase in Chinese services activity. Furthermore, the rate of growth was the steepest seen for three months and slightly quicker than the series average.

Supporting the stronger rise in activity was a further increase in total new work placed with services companies. The rate of new order growth likewise quickened to a three-month high. New export business fell slightly, however, to suggest the upturn was largely driven by stronger domestic demand. Some companies mentioned that the pandemic continued to dampen new orders from overseas.

Rising intakes of new work led to renewed pressure on operating capacities, as highlighted by the first increase in outstanding business for five months. That said, the rate of accumulation was only marginal. As part of efforts to expand capacity and process orders, employment at service providers increased in March. Though modest, the upturn contrasted with a slight fall in workforce numbers during February.

Average operating expenses faced by Chinese services firms rose for the ninth month running in March. Though solid, the rate of inflation was the softest recorded since last September. Firms cited a variety of factors when explaining the latest rise in costs, including higher prices for raw materials and labour.

In order to alleviate pressure on margins, prices charged by services companies in China rose again at the end of the first quarter. The rate of inflation was the quickest seen in the year to date and solid.

Finally, business confidence improved markedly in March, hitting its highest since February 2011. Companies that projected higher business activity over the year ahead frequently linked this to forecasts of more normal business conditions and a further recovery in market demand once the pandemic ends. There were also reports that new product investment and planned company expansions would boost activity.

Key findings:
- Business activity and sales both rise at quicker rates
- Employment returns to growth
- Business confidence hits highest for over a decade amid hopes of post-pandemic recovery
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 rose to 54.3 in March, ending a three-month slide and marking the 11th straight month in expansionary territory. The March reading was up 2.8 points from February’s.

1. Both supply and demand in the services sector expanded for the 11th straight month, with growth coming at a much faster pace than during the previous two months. The Covid-19 flare-ups that occurred in the fall and the winter have basically died down, and the services sector has quickly recovered with supply and demand expanding. Compared with strong domestic demand, overseas demand is still in need of improvement. The measure for new export business remained in contractionary territory for the second straight month, though the contraction was limited.

2. With the market’s positive outlook, services sector employment significantly improved, with its measure climbing over 3 points in March, returning to positive territory. However, the increase in the number of workers was still not sufficient to support the influx of new orders, so backlogs slightly increased.

3. Inflationary pressure increased as input costs and output prices remained high. Increases in raw material prices, labor costs and energy prices drove up the measure for input costs for the ninth straight month. Due to the rising costs, the prices charged by service providers remained in expansionary territory for the eighth straight month.

4. Service providers were very confident about the prospects for the economic recovery and getting the pandemic under control. The gauge for business expectations rose to the highest point since February 2011.”
Chinese business activity expands at quickest rate for three months

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 picked up from 51.7 in February to 53.1 in March, to signal a solid increase in overall Chinese business activity. Furthermore, the rate of growth was the steepest seen in the year to date. The upturn was driven by a sharper rise in services activity, as manufacturing production growth was fractionally slower than that seen in February.

Total new orders received by Chinese firms also rose at a quicker rate in March, supported by a renewed expansion in overall export sales. Composite employment meanwhile rose slightly, after a mild drop in February. At the same time, aggregate inputs costs and output charges both rose sharply, with the latter increasing at the quickest rate since November 2016.

Overall business confidence regarding the year ahead hit an eight-year high, with firms optimistic that market conditions will continue to recover from COVID-19.

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 climbed to 53.1 in March, up 1.4 points from the previous month. The manufacturing and services sectors continued to recover, with the services sector improving more than manufacturing. The employment gauge improved, with services employment performing better than manufacturing. Respondents remained optimistic about the economic outlook for the coming year. However, input costs and output prices remained high, adding to inflationary pressure.

"To sum up, the economy continued to recover from the epidemic. Supply and demand in the manufacturing and services sectors remained in expansionary territory, though at different paces due to the end of the Covid-19 flare-ups in the fall and the winter. The recovery in manufacturing slowed for the fourth straight month, whereas for services, it expanded at a much faster pace. Consequently, employment in the services sector significantly improved, while the job market in the manufacturing sector remained under clear pressure.

"More attention still needs to be paid to inflation going forward. Input costs and output prices in the services and manufacturing sectors have been rising for several months, reflecting growing inflationary pressure. This has restricted the room for future policy changes and is not conducive to a sustained economic recovery in the post-epidemic period."
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 12-23 March 2021.

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.

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