Caixin China General Services PMI™
Including Caixin China Composite PMI™

Service sector conditions remain challenging as pandemic weighs on demand

Data were collected 7-22 April 2020

Chinese service providers signalled further falls in both business activity and new work during April, though rates of reduction eased further from February. The coronavirus disease 2019 (COVID-19) pandemic remained a key factor weighing on performance, having led to reduced client spending and disruption to business operations on a global scale. Notably, new export sales declined at the second-quickest pace on record.

Consequently, firms continued to trim their payroll numbers amid further signs of spare capacity. Input costs were meanwhile broadly stable, as firms discounted their selling prices again as part of attempts to boost new orders. Encouragingly, business confidence picked up for the second month running.

The seasonally adjusted headline Business Activity Index posted 44.4 in April, up from 43.0 in March, to signal a further steep decline in services activity at the start of the second quarter. That said, the index rose further from February’s record low. Firms that registered lower business activity widely commented on the negative impact of the COVID-19 virus on new work and business operations.

Total new business received by Chinese service providers fell for the third month in a row in April. That said, the rate of decline eased further from February’s record pace and was only modest. The reduction in total sales was widely linked to weaker demand conditions both at home and overseas. Notably, new export orders fell at the second-sharpest rate since the series began in September 2014 as many firms commented that the pandemic had resulted in temporary company closures and other restrictions across many export markets.

The sustained drop in total new work led to a further fall in employment across the sector. Moreover, the rate of job shedding was the quickest recorded since data collection began in late-2005. Despite lower headcounts, backlogs of work declined again in April as lower intakes of new business freed up capacity.

After a modest rise in March, operating expenses were broadly unchanged in April. According to panel members, increased expenditure on virus protection measures was largely offset by lower staffing costs and reduced prices for inputs such as oil and diesel. Prices charged by services companies in China meanwhile fell for the fifth month running as part of strategies to boost new orders.

Despite the current challenging climate, optimism towards the 12-month outlook picked up to a three-month high amid hopes of a recovery in conditions once the pandemic situation improves.

Caixin China Composite PMI™
Chinese business activity falls modestly, driven by weak service sector performance

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.

April data signalled a third consecutive monthly decline in total Chinese business activity. That said, the pace of reduction eased further from February’s all-time record and was only modest. This was shown by the Composite Output Index rising from 46.7 in March to 47.6. Companies continued to cite the negative impact of the COVID-19 pandemic on business operations and demand.

Total new work fell again in April, which was predominantly driven by the steepest decline in composite export orders on record as clients globally faced more restrictions to halt the spread of the virus. Consequently, firms continued to cut their staff numbers, and at a quicker rate than in March.

Operating expenses meanwhile fell slightly after increasing in March. At the same time, firms continued to cut their prices charged in hopes of attracting sales.

March rebound in e-commerce activity brought about by shrinking overseas demand should not be underestimated in the second quarter. Employment in the services sector contracted at the fastest pace on record. The measure for new export business dropped to the second-lowest level since the data series began in September 2014, just above the February reading. The gauge for outstanding business fell further into negative territory, reflecting sluggish demand.

1. Falling overseas demand dragged on the services sector. The measure for total new business remained in contractionary territory but improved somewhat from the previous month. The gauge for new export business dropped to the second-lowest level since the data series began in September 2014, just above the February reading. The gauge for outstanding business fell further into negative territory, reflecting sluggish demand.

2. Employment in the services sector contracted at the fastest pace on record. The measure for employment hit its lowest level since the survey began more than 14 years ago. China will work to bail out services companies hit hard by the pandemic, as policymakers have made stabilizing employment their top priority. Bigger tax and fee cuts are urgently needed.

3. Service providers’ business confidence recovered markedly. The fall in prices that companies charged customers slowed down, and input costs rose at a slower clip amid shrinking employment and falling oil prices. This helped ease pressure on company profits. The gauge for business expectations for the coming 12 months rose noticeably, suggesting that companies grew more optimistic about the prospects of a recovery in consumption.

"The Caixin China General Services Business Activity Index rose slightly to 47.6 in April from the month before. New export orders shrank at a steeper rate in April than in February, indicating that the March rebound in exports was not sustainable, as it was due chiefly to delayed deliveries of orders received before the Lunar New Year holiday. The second shockwave for China’s economy brought about by shrinking overseas demand should not be underestimated in the second quarter. Employment contracted more rapidly in April, adding urgency to job market stabilization. Pressure on input costs eased slightly thanks to falling global oil prices and some companies’ layoffs."

4.  In April, the severe export shock on China’s economy had a knock-on impact on household income and consumption, as well as business investment. As the recovery of domestic consumption was limited and increased infrastructure spending was not enough to offset the plunge in external demand, the country’s economy continued to decline year-on-year. In the April 17 Politburo meeting, top policymakers vowed to take stronger measures to cushion the epidemic’s impact. We expect a macroeconomic stimulus package to launch soon, providing aid for businesses, safeguarding employment and boosting investment and consumption.”

Caixin China General Services PMI™

Comment

Commenting on the China General Services and Composite PMI data, Dr. Zhengsheng Zhong, Chairman and Chief Economist at CEBM Group said:

“The Caixin China General Services Business Activity Index rose slightly to 44.4 in April from the previous month, staying at a low level. Domestic services activity remained under notable pressure amid the coronavirus pandemic.

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2. Employment in the services sector contracted at the fastest pace on record. The measure for employment hit its lowest level since the survey began more than 14 years ago. China will work to bail out services companies hit hard by the pandemic, as policymakers have made stabilizing employment their top priority. Bigger tax and fee cuts are urgently needed.

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“The Caixin China Composite Output Index rose slightly to 47.6 in April from the month before. New export orders shrank at a steeper rate in April than in February, indicating that the March rebound in exports was not sustainable, as it was due chiefly to delayed deliveries of orders received before the Lunar New Year holiday. The second shockwave for China’s economy brought about by shrinking overseas demand should not be underestimated in the second quarter. Employment contracted more rapidly in April, adding urgency to job market stabilization. Pressure on input costs eased slightly thanks to falling global oil prices and some companies’ layoffs.

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Methodology
The Caixin China General Services PMI™ is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. 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
April data were collected 7-22 April 2020.
Data collection began in 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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