China’s service sector maintained strong growth momentum in October, according to latest PMI data, with both business activity and new work expanding solidly at the start of the fourth quarter. As a result, employment at services companies rose for the second month in a row.

The further recovery in conditions was accompanied by stronger inflationary pressures, with input costs rising at the fastest rate since July and output charge inflation quickening to a solid pace.

At 53.8 in October, the headline seasonally adjusted Business Activity Index rose from 53.4 in September to signal a second successive monthly rise in Chinese service sector activity. The rate of growth was the quickest seen since July and solid, albeit slightly softer than the long-run series average (54.1).

New business also expanded at a stronger rate at the start of the fourth quarter. The rate of new order growth was the steepest seen for three months and solid overall, with a number of firms commenting that improved market conditions and increased customer demand had supported sales. Notably, new export orders returned to growth in October, following a slight fall in September. Though only marginal, the increase in foreign sales was the quickest for six months.

Employment at services companies rose for the second month in a row, though the rate of job creation remained mild overall. Companies that added to their staffing levels generally linked this to rising customer demand and efforts to increase capacity.

While some firms cited having sufficient capacity to process orders, others indicated that that a sustained upturn in new orders and insufficient staff numbers had imparted greater pressure on capacity. As a result, backlogs of work across China’s service sector were unchanged in October, following a three-month sequence of accumulation.

Service providers recorded a further increase in average input costs in October, with the rate of inflation quickening to a three-month high. Panel members attributed the latest rise in expenses to greater staff and raw materials costs.

Subsequently, prices charged by services companies increased again at the start of the fourth quarter. The rate of inflation picked up to the fastest since July and was solid overall.

Chinese service providers expect a further recovery from the pandemic and subsequent increases in client demand to support growth of business activity over the coming 12 months. The overall degree of optimism softened slightly from that seen in September, however, and was below its long-run average. Some firms expressed concerns over rising costs and supply chain disruption, which in turn could dampen performance over the next year.

Key findings:
- Strongest increases in activity and new orders since July
- Renewed upturn in foreign sales
- Input costs and output charges both rise at quicker rates
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 53.8 in October from 53.4 the previous month, indicating that the services sector continued to recover.

"Supply and demand both recovered as disruptions from local Covid-19 outbreaks faded by the middle of October. The gauges for business activity and total new business both reached the highest level in three months. Overseas demand also rebounded as the measure for new export business moved into expansionary territory.

"The services job market continued to recover amid improving supply and demand. The measure for employment stayed in positive territory for the second consecutive month. Outstanding business was roughly unchanged.

"Prices in the services sector kept rising. Input costs increased for the 16th month in a row and rose at a faster pace than the previous month due to rising labor and raw material costs. Solid demand allowed businesses to pass part of this rise in costs downstream, leading the gauge for prices charged by service providers to reach the highest in three months.

"Businesses remained relatively optimistic, though the measure for business expectations fell to the lowest point in four months. Some surveyed firms were worried about rising costs and the stability of supply chains."
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.

At 51.5 in October, the Composite Output Index rose slightly from 51.4 in September to signal a second successive monthly rise in overall Chinese business activity. The rate of growth remained modest, however, and below the historical average (52.6). The upturn was driven by a further expansion in services activity, as manufacturing production declined for the third month in a row.

Composite new business increased for the second straight month, and at a solid pace that was the fastest since May. Sector data showed that both manufacturers and service providers recorded stronger increases in sales in October. Overall employment rose slightly for the first time in three months, as job creation at services firms offset job shedding at goods producers.

Input prices faced by Chinese firms rose at the sharpest rate for five months, with a notable pick up in cost inflation seen at manufacturers.

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 51.5 in October, higher than 51.4 the previous month. Supply and demand recovery both retained momentum. Employment was more or less stable. Gauges for prices were high. Manufacturers were facing higher pressure on costs than service providers.

"As the number of new Covid-19 cases dropped from late September to the middle of October, related disruption faded and market demand recovered while supply was relatively weak. Manufacturing was significantly weaker than services.

"Supply strains became the paramount factor affecting the economy. Shortages of raw materials and soaring commodity prices, combined with electricity supply problems, created strong constraints for manufacturers. Those factors also had a significant impact on services enterprises.

"Input costs for manufacturers have risen much faster than their output prices for several months. The growth rate of input costs for service providers was also higher than that for prices they charged, putting pressure on downstream enterprises.

"Policymakers should not only take effective measures to stabilize commodity supplies and prices, but also pay close attention to downstream firms, especially small and midsize ones. In addition, a new wave of Covid-19 outbreaks has reappeared in some central and western regions since late October, which means fresh economic disruptions. It is critical to balance the goals of controlling the outbreaks and maintaining normal economic activity."
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 12-21 October 2021.

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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