May data pointed to another strong performance of China’s service sector. Business activity and new orders both rose sharply, despite rates of expansion softening since April, while firms continued to add to their staffing levels. However, the latest survey also showed a sharp and accelerated rise in input costs, which in turn led to a steeper increase in prices charged. Business expectations for the year ahead remained strongly positive in May, though the overall degree of optimism edged down to a four-month low.

At 55.1 in May, the headline seasonally adjusted Business Activity Index slipped from April’s four-month high of 56.3, but remained firmly above the neutral 50.0 level to signal a marked increase in activity. The latest upturn in output also extended the current sequence of rising activity to 13 months.

Higher levels of business activity were supported by a sustained increase in sales. In line with the trend for activity, the rate of growth was not as quick as that seen in April, but nonetheless sharp. According to panel members, customer demand continued to recover due to the successful containment of COVID-19 in China, while there were also reports of new product offerings boosting sales. The resurgence of the virus in other regions across the world weighed on new export business, however, which fell for the third time in four months (albeit only slightly).

Employment across China’s service sector rose for the third consecutive month, with a number of firms adding to their payrolls due to rising sales. That said, the rate of job creation softened slightly since the previous month.

At the same time, there was a renewed upturn in backlogs of work, with firms often commenting that growth of new orders placed pressure on operating capacities. Though modest, the rate of accumulation was the steepest recorded for over a year.

Cost pressures at Chinese service providers continued to build in May amid reports of higher prices for raw materials, energy, staff and transport. Notably, the rate of inflation was the quickest recorded since last November and sharp.

As part of efforts to alleviate pressure on margins, prices charged by services companies increased again in May. The rate of inflation was the quickest recorded in 2021 to date and solid.

The 12-month outlook for service sector activity remained strongly positive midway through the second quarter, with optimism often linked to expectations of firmer client demand both at home and abroad, and new product releases. However, there were concerns over how long the global economy will take to recover from the pandemic, which led the overall degree of positive sentiment to dip to a four-month low.

**Key findings:**

- Softer, but still marked, rises in activity and new orders
- Employment increases modestly
- Cost pressures continue to build

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**China General Services Business Activity Index**

sa, >50 = growth since previous month

Sources: Caixin, IHS Markit
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 fell to 55.1 in May from 56.3 the previous month. The reading stayed in expansionary territory for 13 straight months, indicating solid growth in the sector.

"Services supply and demand continued their upward trends for the 13th consecutive month, though both expanded at a slower pace than in the previous month. After expanding in April, overseas demand shrank as the measure for new export business slipped into contractionary territory. Surveyed enterprises blamed the dip on the adverse effects of the pandemic overseas.

"The job market continued to improve along with the economic recovery. The gauge for employment stayed in positive territory in May, though down slightly from the previous month. Services employment continued to recover in the post-epidemic era, expanding in nine out of past 10 months. However, the expansion in employment was insufficient to meet the increasing demand for services. The measure for outstanding business returned to expansionary territory in May.

"Inflationary pressure was enormous as price gauges continued to rise. Both the measures for input costs and the prices service providers charged rose to their highest points of the year. Surveyed enterprises attributed the rise in input costs to growth in raw material, energy, labor and transportation costs. The increased costs and strong demand pushed up the prices service companies charged.

"The sector remained optimistic. Entrepreneurs remained confident about the economic recovery going forward as the gauge for business expectations stayed high in expansionary territory. But some respondents worried about the overseas pandemic."
Strong rise in overall business activity across China

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 fell from 54.7 in April to 53.8 in May, to signal a softer expansion of overall Chinese business activity. Nonetheless, the rate of growth was solid and quicker than the series average (52.6). Service providers continued to register a stronger expansion of output than manufacturers, though both sectors saw rates of growth ease since April.

Composite new orders also rose solidly in May, with the rate of increase little-changed from the previous month, as an acceleration of growth at goods producers largely offset a softer rise at services companies.

Total employment rose for the third month running, albeit modestly. Prices data meanwhile pointed to the quickest rise in composite input costs since December 2016, which led to the steepest increase in output charges since February 2011.

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 53.8 in May, lower than 54.7 the previous month, but still at a high level for this year. Supply, total demand, overseas demand and employment all expanded. Surveyed enterprises remained confident about the economic outlook for the next 12 months. Both the gauges for input costs and output prices rose higher into expansionary range, indicating tremendous inflationary pressure.

"To sum up, the expansion in manufacturing and services maintained its momentum as both supply and demand expanded. Overseas demand was generally good, but service exports were affected by the pandemic. The job market continued to improve. In May, services recovered faster than manufacturing. Entrepreneurs were confident about the economic outlook. Inflation remained a crucial concern as the price gauges in manufacturing and services both rose last month.

"Policymakers mentioned rising commodity prices at the State Council executive meetings on May 12 and May 19. They issued instructions about stabilizing commodity supplies and prices. The price transmission effect emerged. Inflationary pressure would limit the room for monetary policy maneuvering, which could hinder the economic recovery. Some enterprises began to hoard goods in response to rising raw material prices, while others suffered raw material shortages. Supply chains were also significantly affected."
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 12-20 May 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.


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