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

Service sector activity falls at weaker pace in March

Key findings
Business activity and new work both decline at slower rates...
...but employment falls at quickest pace on record

Output charges cut at fastest rate since April 2009

China’s service sector continued to face challenging conditions in March, with the COVID-19 outbreak continuing to weigh on the performance of the sector. The declines in output and new orders were not as severe as those seen in February, however, when the country imposed stricter measures to reduce the spread of the virus. Nonetheless, companies cut staff numbers at the quickest pace on record amid a renewed rise in operating expenses and subdued client demand.

Although confidence around future activity improved from the record-low in February, the level of positive sentiment was nonetheless the second-weakest in the series history as concerns around the longevity of COVID-19 loomed large.

Adjusted for seasonal factors, the headline Business Activity Index remained below the neutral 50.0 level at 43.0 to signal a marked drop in service sector output. However, this was up from a record low of 26.5 in February, to indicate an easing in the downturn. The reduction was widely linked to the impact of restrictions related to COVID-19, which led to store closures and restrictions around travel in recent months.

The pandemic continued to weigh on customer demand during March, as highlighted by a further reduction in total new business. The rate of contraction, though solid, was notably softer than that seen in February, however. New work from abroad also fell further at the end of March and at a substantial pace.

Service providers reduced their staffing levels for the second month running, with the rate of job creation quickening slightly from February. According to respondents, some employees had left voluntarily, while others mentioned the implementation of cost-cutting policies due to the challenging outlook.

A lack of new work underpinned a renewed fall in outstanding business across China’s service sector during March. Though only modest, the rate of backlog depletion was the quickest seen since September 2015.

After falling substantially in February, average input costs rose during March. The mild rise in operating expenses was reportedly driven by increased overtime payments and investment into anti-virus equipment for staff.

At the same time, firms cut their selling prices again, and at the steepest rate since April 2009, as part of efforts to increase sales.

Business confidence picked up slightly from February’s record low but remained historically weak amid concerns over the longevity and severity of the pandemic.

Caixin China Composite PMI™

Business activity declines at weaker pace in March

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.

Overall business activity across China fell for the second month running in March. Though solid, the rate of decline
The survey began. The rapid spread of the pandemic outside China has put more pressure on services demand. The measure for outstanding business fell into contractionary territory from a record high in the month before, also reflecting the sluggish demand.

2) Cost pressure on the service sector grew, and employment contracted at a faster rate. The measure for input costs rebounded and returned to expansionary territory due to rising costs for logistics, epidemic prevention and recruitment. However, the gauge for prices that companies charged customers fell further as they stepped up efforts such as price cuts to promote sales in response to the subdued demand. Mounting cost and profit pressures were important reasons for increasing layoffs.

3) Business confidence remained low. The gauge for future output, which reflects companies’ expectations for the coming 12 months, rebounded slightly from a record low the previous month. The epidemic will have a longer-term impact on service companies than on manufacturing enterprises, as some of the missed consumption during the outbreak — such as spending on household services and education, as well as catering and entertainment — cannot be recouped. This highlights the necessity of government policies to stimulate consumer spending.

“The Caixin China Composite Output Index came in at 46.7 in March, the second-lowest reading in 11 years. Both domestic and external demand shrank further. Employment contracted at a slower rate, thanks to an improved labor market in the manufacturing sector. Growth in backlogs of work slowed, due mainly to the services sector’s contracting backlogs. While their input costs rose after February’s decline, companies’ sale prices fell further, posing great pressure on profitability. Manufacturers were more confident than service providers about the future outlooks for their businesses.

“The recovery of economic activity remained limited in March, although the domestic epidemic was contained. In the first two months this year, China’s value-added industrial output and services output dropped 13.5% and 13% year-on-year, respectively. Estimates suggest their declines haven’t been as steep in March and the country’s first-quarter GDP is likely to have dropped significantly. Such a situation requires policymakers to cut this year’s GDP growth target and step up countercyclical efforts to support areas like consumption and infrastructure, particularly given the accelerated contraction in the service sector job market.”

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 rebounded to 43 in March from a record low for the previous month, marking the second-lowest level since the survey began in 2005. Services activity remained under huge pressure and continued to shrink markedly amid restrictions to contain the coronavirus epidemic.

1) Domestic and overseas demand shrank further. Both the gauges for total new business and new export business placed with service providers rebounded from the previous month’s record lows to their second-lowest since...
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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
March data were collected 12-23 March 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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