

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Solid increase in services activity during August

August data signalled another solid increase in Chinese service sector activity, as businesses continued to recover from the coronavirus disease 2019 (COVID-19) pandemic. New order growth also remained marked, despite easing further from June's recent record.

The sustained increases in activity and sales led firms to expand their workforce numbers for the first time in seven months. This contributed to a stronger increase in input costs, which in turn drove a renewed rise in output charges.

The headline seasonally adjusted Business Activity Index fell only fractionally from 54.1 in July to 54.0 in August, to signal a further solid increase in business activity midway through the third quarter. Although softening further from June's near-decade high, the latest uptick extended the current sequence of growth to four months. The data therefore adds to signs that the sector continued to recover from the marked drops in activity earlier in the year following the COVID-19 outbreak.

The return to more normal market conditions, greater client numbers and the resumption of projects led to a further increase in new orders during August. Although solid, the latest uptick marked the softest increase for four months, with the rate of growth slipping below the long-run series average. Higher sales were largely driven by firmer domestic demand, according to underlying data, as new export work fell for the second month in a row.

Higher operational requirements led companies to expand their workforce numbers in August. Though only slight, it marked the first increase in employment across the sector since January.

Companies reported having sufficient capacity to process and complete inflows of new work in August. As a result, outstanding business fell slightly, following a mild increase in July.

Operating expenses faced by Chinese service providers rose at a quicker rate midway through the third quarter amid reports of higher staffing costs and raw material prices. Though only mild, the rate of input price inflation was the strongest seen since March.

As part of efforts to protect their margins, services companies increased their output charges in the latest survey period. The rate of inflation was modest, but contrasted with a slight reduction in selling prices during July.

Although services companies generally expect business activity to be higher than current levels in one year's time, the overall degree of positive sentiment dipped to a three-month low in August. Many firms anticipate market conditions to continue to recover from the pandemic and customer demand to rise further. However, there were also some companies that expect the pandemic to continue to impact their business operations and sales in the months ahead.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

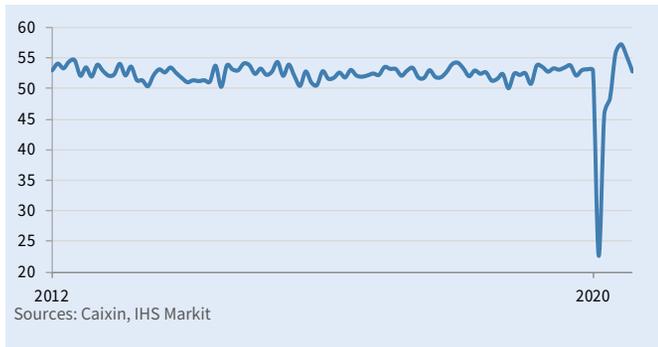
New order growth eases further, but remains strong

Staff numbers expand for the first time since January

Output prices rise amid further increase in operating costs

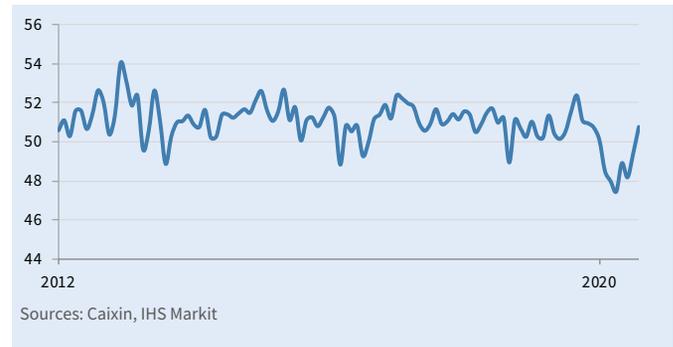
New Business Index

sa, >50 = growth since previous month



Employment Index

sa, >50 = growth since previous month



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 came in at 54 in August, almost the same as the previous month's 54.1. The ongoing resumption of work and normalization of market demand continued to promote the post-epidemic economic recovery.

1) Domestic supply and demand in the services sector continued to recover, while there were still uncertainties in overseas demand. Both the business activity index and total new business expanded for the fourth consecutive month, but at a slower pace, causing the gauge for outstanding business to return to negative territory. The pandemic continued to impact external demand, with the measure for new export business remaining in contractionary territory, dragging down total demand.

2) Employment started to improve. The ongoing recovery of supply and demand in the services sector had a positive influence on

employment, with the employment gauge rising into expansionary territory for the first time since January. In the face of increasing orders, many companies expanded hiring, thus pushing up costs, which, coupled with rising raw material prices, led the gauge for input costs to rise further into positive territory. Due partly to that factor, the gauge for prices that service providers charged customers returned to expansionary territory.

3) Companies remained confident about the economic outlook. In fact, the gauge for business expectations has never dropped into negative territory since the data series began in November 2005. In August, this gauge remained in expansionary territory, but was much lower than the historical average. Some service providers held different views on the outlook for the services sector for the year ahead."

Caixin China General Composite PMI™

Total business activity continues to rise sharply in August

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 55.1 in August, the Composite Output Index rose from 54.5 in July, and signalled a steep increase in overall Chinese business activity. Notably, the rate of expansion was the second-quickest since December 2010 (after June 2020). The uptick was supported by the strongest increase in manufacturing output since January 2011. Meanwhile, services activity rose at a slightly softer, but still solid, rate.

Composite new order growth meanwhile eased to a three-month low in August but remained marked overall. A stronger gain in manufacturing sales was more than offset by a softer rise in new business at services firms. Composite employment expanded for the first time in 2020 to date, driven by a renewed rise in service sector staff numbers. Manufacturers reported only a fractional decline in headcounts.

Input costs at the aggregate level continued to rise solidly overall, which led to the strongest increase in composite output charges for two years.

Comment

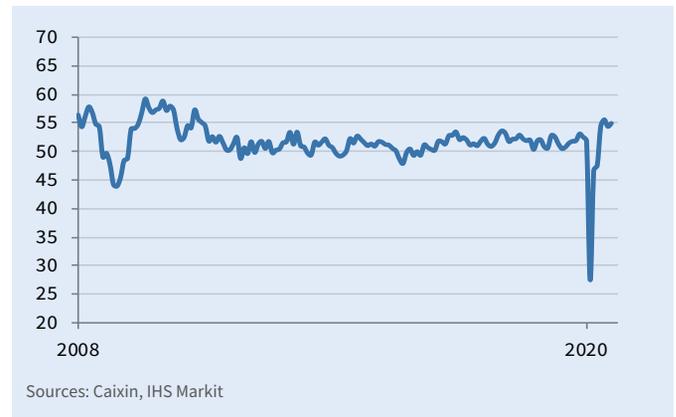
Commenting on the China General Composite PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

"The Caixin China Composite Output Index stood at 55.1 in August, remaining on an upward track amid improvements in the manufacturing and services sectors. Employment in the services sector expanded for the first time in seven months, while the employment gauge for the manufacturing sector was at its closest to positive territory since January. The composite employment measure rose to expansionary territory for the first time this year. In general, the gauge for business expectations maintained a positive trend.

"Overall, the recovery of the manufacturing and services sectors from the epidemic remained the main theme of the economy. Supply and demand both expanded. The gauges for orders, purchases and inventories all remained strong. Price measures remained stable. Over the past half year, external demand and employment remained subdued generally, but in August, employment for the services sector started to improve and employment for the manufacturing sector approached a turning point. However, there were still uncertainties from Covid-19 overseas, which could constrain the "dual circulation" of domestic and international markets. Improvement in employment in the post-epidemic era requires longer-term market recovery and longer-term stability of business expectations. During this process, support from relevant macroeconomic policies is essential."

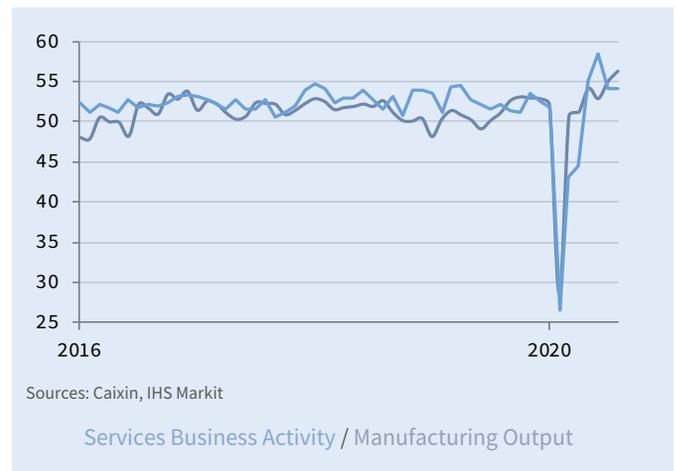
China General Composite Output Index

sa, >50 = growth since previous month



Index by sector

sa, >50 = growth since previous month





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 11-19 August 2020.

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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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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About IHS Markit

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Contact

Dr. Wang Zhe

Senior Economist

Caixin Insight Group

+86-10-8590-5019

zhewang@caixin.com

Ma Ling

Senior Director

Brand and Communications

Caixin Insight Group

T: +86-10-8590-5204

lingma@caixin.com

Annabel Fiddes

Associate Director

IHS Markit

T: +44 1491 461 010

annabel.fiddes@ihsmarkit.com

Bernard Aw

Principal Economist

IHS Markit

T: +65 6922 4226

bernard.aw@ihsmarkit.com

Katherine Smith

Public Relations

IHS Markit

T: +1-781-301-9311

katherine.smith@ihsmarkit.com