Caixin China
General Services
PMI Press Release
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The introduction of tighter COVID-19 containment measures in China led to quicker reductions in service sector business activity and overall sales in April. Notably, both activity and new orders fell at the second-sharpest rates since the survey began in November 2005, and were exceeded only by those seen at the initial onset of the pandemic in February 2020. Input costs meanwhile rose solidly, but efforts to attract new business drove a renewed drop in prices charged by services companies.

Encouragingly, business confidence improved slightly on the month, with many firms anticipating that activity levels will rise once pandemic-related restrictions eased. At the same time, service sector employment fell only marginally in April.

The seasonally adjusted headline Business Activity Index slipped from 42.0 in March to 36.2 in April, to signal a second successive monthly fall in services activity. Furthermore, the rate of reduction was the second-sharpest seen in the survey history (behind only February 2020), with companies frequently linking the fall to tighter COVID-19 restrictions and subsequent disruption to operations.

The escalation of measures to contain the spread of the virus, which included restrictions on mobility and lockdowns, also weighed heavily on customer demand at the start of the second quarter. Total new business fell at the second-steepest rate on record (after February 2020), while new export orders declined at the sharpest rate for two years.

Despite the drop in business activity and weaker demand conditions, expectations around future output improved slightly in April. Companies that projected higher business activity often anticipated a strong recovery in demand once pandemic restrictions are eased. However, there were some concerns over how long it may take to fully contain the virus and to return to more normal business conditions.

Employment was also relatively resilient, with companies noting only a marginal drop in staffing levels during April. Workforce numbers have now fallen slightly over the past four months. Meanwhile, the escalation of COVID-19 measures restrained firms’ operations and led to a further increase in the level of outstanding business. The rate of accumulation was slower than that seen in March, however, and only slight.

Chinese services providers noted a softer, but still solid rise in average input costs during April. According to panel members, greater prices for raw materials, fuel and expenditure on measures to limit the spread of COVID-19 had driven the latest increase in operating expenses.

Prices charged by services companies in China meanwhile fell for the first time in eight months. Though modest, the rate of discounting was the quickest seen since May 2020, with a number of firms lowering their fees in order to attract new business amid muted demand conditions.

Key findings:

Quickest fall in service sector output for over two years as COVID-19 restrictions tighten
Decline in new business also gathers pace
Employment falls only slightly
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 (services PMI) came in at 36.2 in April, down sharply by 5.8 points from the previous month and the lowest reading since February 2020. The new round of Covid-19 outbreaks hit the service sector hard.

“Supply and demand in the sector contracted severely. Both the services PMI and the measure for new business dropped to the lowest since February 2020, as regional Covid outbreaks limited both supply and demand. As travel restrictions squeezed external demand, the gauge for new export business fell to the lowest point since April 2020.

“Employment in the service sector continued to decline. The measure for employment has been under 50 for four consecutive months, although the decrease in employment was modest compared to the contraction in supply and demand. Some companies, affected by the drop in orders, laid off workers to lower costs. Backlogs of work in the service sector also rose because of Covid-19.

“Input costs rose while prices charged fell. The gauge for input costs fell slightly, but remained in expansionary territory, showing that cost pressures still weighed heavily on service enterprises. Meanwhile, energy and raw material prices were still high, and measures to contain Covid outbreaks also increased the operating costs of businesses. Because of sluggish demand, service companies had to lower the prices they charged, with the relevant gauge falling into contractionary territory for the first time since August last year.

“Businesses were moderately optimistic. Even as regional Covid-19 outbreaks dragged on, entrepreneurs were confident that they would be brought under control, although some worried that the control measures would last too long.”
Caixin China General Composite PMI™

Sharper reduction in overall Chinese business activity in April

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 seasonally adjusted Composite Output Index posted 37.2 in April, down from 43.9 in March, to signal a second successive monthly decline in overall business activity across China. Furthermore, the rate of contraction was the second-sharpest in the series history (beaten only by that seen in February 2020). Services companies noted a slightly sharper drop in output than manufacturers, though both sectors recorded much steeper falls compared to March.

Composite new business also fell at the second-fastest rate on record. Historically sharp falls in new work were registered across both monitored sectors in April, and new orders from overseas also fell at a rapid pace. Encouragingly, employment decreased only slightly, with both manufacturers and service providers noting marginal drops in staffing levels. Prices data showed the rate of overall input cost inflation moderated slightly from March but remained marked overall. Composite selling prices meanwhile fell for the first time since May 2020, albeit only marginally.

Comment

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

“In April, the Caixin China Composite PMI came in at 37.2, down sharply by 6.7 points from the previous month. Due to the impact of Covid outbreaks, supply and demand in both the manufacturing and service sectors fell to their lowest levels since February 2020. External demand remained weak, employment declined slightly, and business costs continued to rise.

“Overall, in April, local Covid outbreaks continued and activity in the manufacturing and service sectors continued to contract, with services shrinking more. Demand was under pressure, external demand deteriorated, supply shrank, supply chains were disrupted, delivery times were prolonged, backlogs of work grew, workers found it difficult to return to their jobs, inflationary pressures lingered, and market confidence remained below the long-term average.

“Since April, the Covid-19 situation in regions like Shanghai remained severe, and the impact on business production and people’s lives continued, especially in logistics. Currently, policymakers’ most urgent task is to optimize the flow of personnel and goods and to focus on stabilizing supply chains, while adhering to the policy of “dynamic zero Covid”.

“In addition, the government should boost support for enterprises in industries that are greatly affected by the outbreaks, to stabilize market expectations. During the recent round of outbreaks, many company employees, gig workers and low-income groups have watched their incomes shrink and their lives grow more difficult, so the government should offer them subsidies.”
Survey methodology

The Caixin China General Services PMI™ is compiled by S&P Global 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 11-21 April 2022.

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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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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