

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector growth accelerates during September

Chinese services companies signalled another steep increase in business activity at the end of the third quarter, to signal a further recovery from the coronavirus disease 2019 (COVID-19) pandemic. Growth was supported by a marked rise in total new business, though new export work continued to decline. Nonetheless, the sustained rise in overall client demand led firms to expand their payrolls for the second month in a row amid increased capacity pressures. Companies also retained a positive outlook regarding activity over the year ahead, with business confidence improving since August.

Prices data meanwhile indicated that inflationary pressures eased, with both input costs and output prices rising at softer rates at the end of the third quarter.

At 54.8 in September, the headline seasonally adjusted Business Activity Index was up from 54.0 in August and signalled a fifth successive monthly increase in service sector output. Notably, the rate of expansion was the sharpest for three months and among the quickest recorded over the past decade.

Supporting the further rise in overall business activity was a sustained increase in total new business. Moreover, the rate of new order growth accelerated since August and was solid overall. Panel members frequently mentioned that a further recovery of client demand following the pandemic and new project developments had boosted sales at the end of the third quarter. Underlying data indicated that stronger domestic demand was the principal factor leading to greater amounts of new work, as export orders contracted further.

The sustained increases in activity and new work led companies to expand their workforce numbers for the second month in a row during September. That said, the rate of job creation remained marginal overall.

Greater inflows of new orders also led to renewed pressure on operating capacities, as highlighted by a slight increase in the level of outstanding business. Backlogs of work have now risen in three of the past four months.

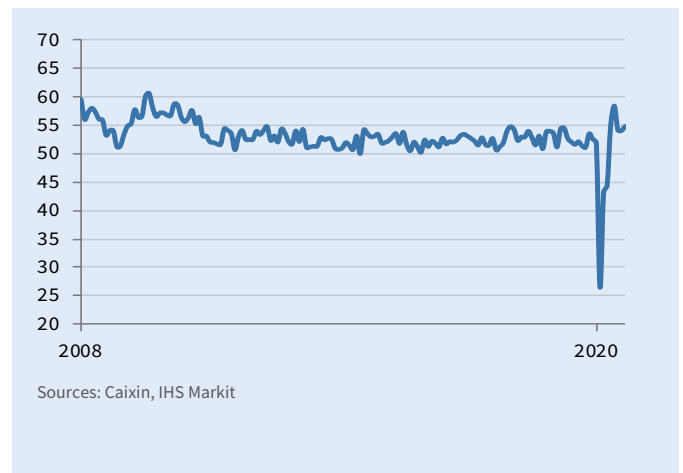
Service providers recorded a much softer rise in operating expenses during September. Notably, the rate of inflation dipped to a three-month low and was only marginal. Firms that reported higher costs generally attributed this to increased expenses related to transport, staff and raw materials.

Prices charged by services companies in China rose for the second month running in September, with some firms mentioning raising their selling prices in order to protect their margins. However, there were also reports that tough market competition had limited overall pricing power.

Business confidence regarding activity levels over the next 12 months remained strongly positive in September. Furthermore, the degree of positive sentiment was firmer than that recorded in August and broadly in line with the historical average. Companies that anticipate business activity to increase over the next year linked this to forecasts of a recovery in global economic conditions once the pandemic is over. Nonetheless, the potential resurgence of the COVID-19 virus around the world remained a key downside risk to the outlook.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

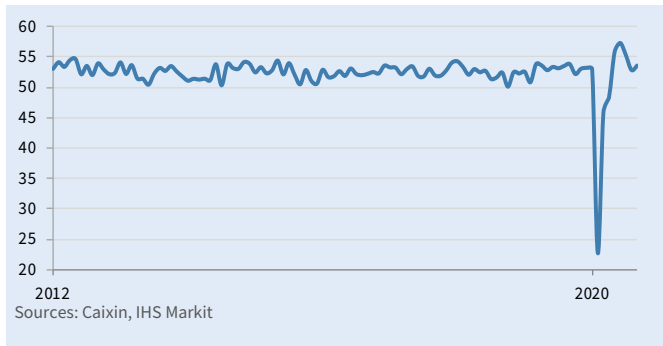
Business activity and new orders both expand at quicker rates

Employment rises for second month in a row

Inflationary pressures weaken

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 54.8 in September. The services sector's post-epidemic recovery showed signs of speeding up.

1) Domestic supply and demand in the services sector continued to recover at a faster pace, while overseas demand remained subdued. Both the business activity index and total new business expanded for the fifth straight month, and at a faster pace than the previous month, causing the gauge for outstanding business to break back into expansionary territory. Uncertainties about the pandemic overseas continued to drag down total demand, with the measure for new export business remaining in contractionary territory for seven of the last eight months.

2) Employment continued to expand for the second consecutive month. The employment gauge remained in expansionary

territory for two months in a row after spending six months in contractionary territory. On one hand, companies gradually expanded hiring in the face of the market recovery. But on the other hand, the employment gauge came in just above 50, showing that the expansion was slight. Accordingly, hiring costs, coupling with rising raw material prices and transportation costs, led input costs to rise for the third consecutive month, though at a lesser rate. Meanwhile, prices that service providers charged customers expanded at a slower pace. During the economic recovery, market competition remained fierce, restricting companies' profitability.

3) Companies remained confident about the economic outlook. In September, the gauge for business expectations rose further into expansionary territory. Companies remained positive about the ongoing economic recovery and the effective control of the epidemic."

Caixin China General Composite PMI™

China's economy maintains strong growth momentum in September

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 55.1 in August to 54.5 at the end of the third quarter but continued to signal a solid increase in total business activity across China. The latest upturn extends the current period of rising business activity to five months. Data broken down by sector indicated that a softer rise in manufacturing production more than offset a faster expansion of services activity.

Chinese firms recorded a stronger increase in total new work during September, which was supported by faster rates of growth across both the manufacturing and service sectors. Employment at the aggregate level meanwhile rose for the second month running. Though marginal, the rate of job creation was the fastest recorded for 10 months.

Overall, input costs rose only modestly in September, with the rate of inflation easing to a three-month low. Prices charged meanwhile rose only slightly.

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 54.5 in September, remaining on an upward track. Supply and demand remained strong for the manufacturing and services sectors, with demand expanding at a faster pace. Employment continued to improve, as the employment index stayed in expansionary territory for the second straight month. The gauge for business expectations maintained a positive trend.

"Overall, the economy remained in a post-epidemic recovery phase and improved at a faster pace. Supply and demand both expanded in the manufacturing and services sectors. The gauges for orders, purchases and inventories all remained strong. Price measures remained stable. The reading for business expectations remained positive, reflecting strong confidence in the economic outlook for the year ahead. Employment in the manufacturing and services sectors improved simultaneously for the first time post-epidemic, but the improvements were not particularly strong, and one should not be overly optimistic about the employment situation. In the near term, there will still be uncertainties from Covid-19 overseas and the U.S. election, and the development of "dual circulation" in the domestic and international markets will continue to face challenges."

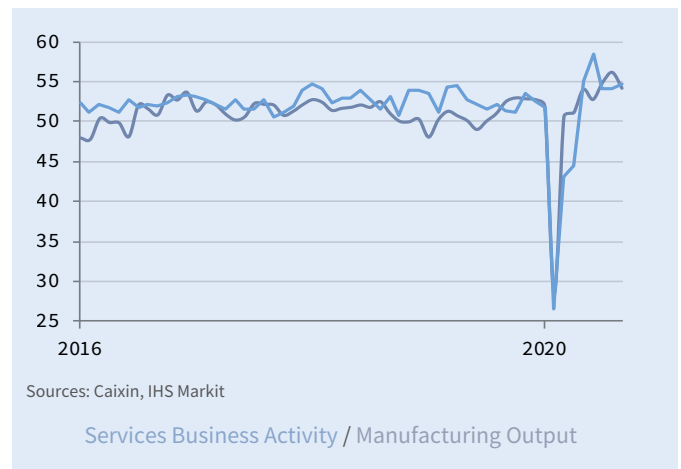
China General Composite Output Index

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 11-21 September 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

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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