

Caixin China General Services PMI™

Including Caixin China Composite PMI™

Service sector activity expands at quickest rate for over a decade in June

Key findings

Business activity and new orders both rise at sharper rates...

... but employment continues to decline

Business confidence strengthens to three-year high

Data were collected 12-22 June 2020

Chinese service providers signalled the sharpest increase in activity for over a decade in June. Furthermore, total new orders rose at the quickest pace since August 2010 and new export work expanded for the first time since January. Firms widely reported that overall market conditions had continued to improve following an easing of measures related to the coronavirus disease 2019 (COVID-19) pandemic.

Meanwhile, employment fell again, albeit modestly, with some firms noting that staff had left roles voluntarily. Encouragingly, business confidence hit a three-year high in June amid forecasts of further increases in customer demand.

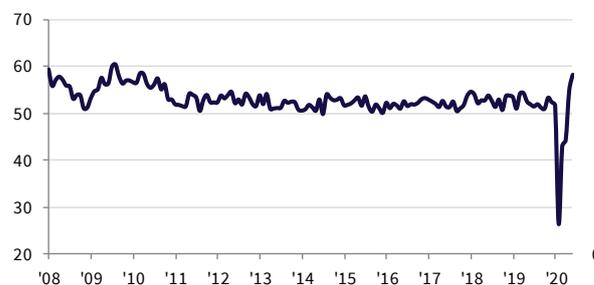
The seasonally adjusted headline Business Activity Index picked up from 55.0 in May to 58.4 in June, to signal a substantial increase in service sector activity. Notably, the rate of expansion was the quickest recorded since April 2010. The upturn was widely attributed to the recent easing of virus-related restrictions and stronger demand conditions.

Total new business increased at the sharpest rate since August 2010, as companies reported that greater customer numbers were resuming more normal business operations. Furthermore, new export business increased for the first time since January, albeit modestly.

Chinese service providers meanwhile signalled a further drop in workforce numbers during June. The rate of reduction was modest, however. Where lower staffing levels were reported, this was generally linked to voluntary leavers.

Caixin China General Services Business Activity Index

sa, >50 = growth since previous month



Sources: Caixin, IHS Markit.

Higher amounts of new business led to a renewed increase in outstanding workloads in June. Though marginal, it was the first time that backlogs had increased for four months.

While operating expenses were broadly stable in April and May, latest data pointed to a slight drop in input prices at the end of the second quarter. Some panel members noted that lower staff-related costs had helped to reduce overall cost burdens in June.

Prices charged by services companies were broadly unchanged in June, thereby ending a six-month period of decline. According to respondents, competition for new work continued to limit overall pricing power.

Chinese service providers expressed stronger optimism towards the 12-month outlook for business activity in June. Moreover, the level of positive sentiment hit a three-year high, with a number of firms forecasting further increases in client demand in the months ahead.

Caixin China Composite PMI™

Chinese business activity expands at quickest rate since November 2010

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 rose from 54.5 in May to 55.7 in June, to signal a sharp and accelerated increase in overall Chinese business activity. Notably, the rate of expansion was the strongest since November 2010. Output rose across both the manufacturing and service sectors, with the latter noting the sharper rate of growth.

New business also expanded at a quicker pace, with the rate of increase the steepest since January 2011. Sales rose sharply across the service sector, while manufacturers noted the first increase in total orders since January. However, employment remained on a downward trend, with both manufacturers and service providers recording modest falls in payroll numbers.

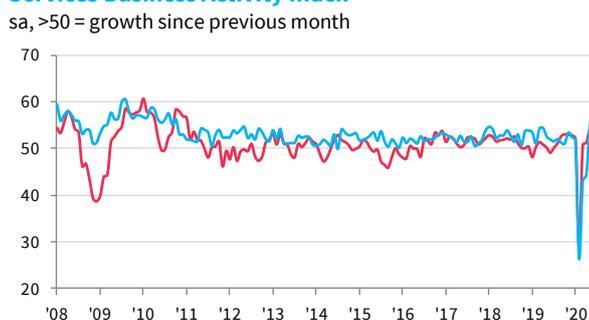
Input costs faced by Chinese companies meanwhile rose only slightly, while prices charged increased at a fractional pace.

Caixin China Composite Output Index



Sources: Caixin, IHS Markit, NBS.

Manufacturing Output Index Services Business Activity Index



Sources: Caixin, IHS Markit.

Comment

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

“The Caixin China General Services Business Activity Index rose further into expansionary territory to 58.4 in June, pointing to an accelerating recovery of the services sector as the Covid-19 epidemic eased in China. The last time the index reached this type of height was in April 2010.

1) Both supply and domestic and overseas demand recovered.

Despite flare-ups in some places, the epidemic remained largely under control in China. Work resumption in the services sector accelerated. The business activity index hit a 10-year high, and the gauge for total new business also reached its highest level since August 2010, indicating a good recovery of services activities. Despite uncertainties over the pandemic overseas, the measure for new export business returned to expansionary territory, meaning that external demand has not been a drag for the first time in five months.

2) *Employment continued shrinking. The employment gauge stayed in negative territory for the fifth straight month despite the recovery of supply and demand in the services sector. Some companies said in the survey that some employees quit voluntarily, making their overall employment numbers smaller. Input costs fell slightly as operating costs dropped due partly to employee resignations. The prices that service providers charged customers remained largely stable, as they said that the recovery of demand remained insufficient and their pricing power remained weak.*

3) *Businesses were highly confident about the economic outlook. The gauge for business expectations rose further into expansionary territory for the fourth consecutive month, suggesting that service providers remained highly optimistic about their business outlook over the next 12 months, as the epidemic was under control, restrictions were lifted, and the economy recovered at a faster pace.*

“The Caixin China Composite Output Index came in at 55.7 in June, remaining on an upward track, as production and demand of both the manufacturing and services sectors expanded. As the pandemic exerted a greater impact on the services sector than on the manufacturing sector — the services PMI was well below the manufacturing PMI in February — the services sector demonstrated a stronger recovery than the manufacturing sector in the post-epidemic period. In terms of overseas demand, while the services sector was recovering, the manufacturing sector remained under higher pressure.

“Employment remained the key problem. Multiple data showed that work resumption rates at manufacturing and service companies continued rising in June, but it still takes time for the economy to fully recover. Therefore, although businesses were optimistic about the economic outlook, they remained cautious about increasing hiring, with employment in both the manufacturing and services sectors shrinking. Addressing the employment problem requires not only macro policies to further promote work resumption, but also more targeted relief measures introduced by governments to tide companies over.”

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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

June data were collected 12-22 June 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.

For more information, please visit www.caixin.com and www.caixinglobal.com.

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