

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector activity rebounds in July

PMI survey data showed a steeper increase in Chinese services activity in July. The stronger upturn coincided with the successful containment of the recent uptick in COVID-19 cases, which in turn led to greater customer numbers and boosted new order intakes. As a result, firms registered a renewed increase in backlogs of work, which led to a slight rise in payroll numbers. Business confidence also strengthened from that seen in June. Finally, prices data showed steep increases in both input costs and output charges.

At 54.9 in July, the headline seasonally adjusted Business Activity Index rebounded from June's 14-month low of 50.3 and signalled a sharp and accelerated expansion of services activity. Growth was also quicker than that seen on average since the survey's inception in late-2005 (54.1).

Underpinning the sharper upturn in activity was a further rise in new business. Notably, the rate of new order growth quickened from June's recent low and was steep overall. Panel members often mentioned that the containment of the virus domestically and firmer market conditions had helped to boost customer numbers and demand. However, the pandemic continued to weigh on new export business, which was broadly stagnant in the latest survey period.

After a slight reduction in June, outstanding workloads increased at Chinese services companies in July. Though modest, the rate of accumulation was the fastest seen for over a year, with respondents often linking the upturn to greater amounts of new business and insufficient capacity.

Service sector employment likewise returned to growth at the start of the third quarter. That said, the rate of job creation was only slight, as efforts to expand capacity were partly offset by other firms that looked to control their costs.

After easing to a marginal pace in June, the rate of input cost inflation quickened notably in the latest survey period. Costs rose markedly overall, with the increase exceeding the long-run series average. Companies reported having higher staff, fuel and raw material costs during July.

Consequently, prices charged by services companies also increased during July, as firms looked to alleviate pressure on their operating margins. The rate of inflation was the quickest seen in the year to date and solid overall.

Business confidence regarding the one-year outlook for activity improved during July, picking up from June's nine-month low. However, optimism remained softer than that seen on average over the series history. A number of firms hoped that an end to the pandemic would boost sales at home and abroad, and lead to stronger global economic conditions, while new product releases were also expected to lift activity levels.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

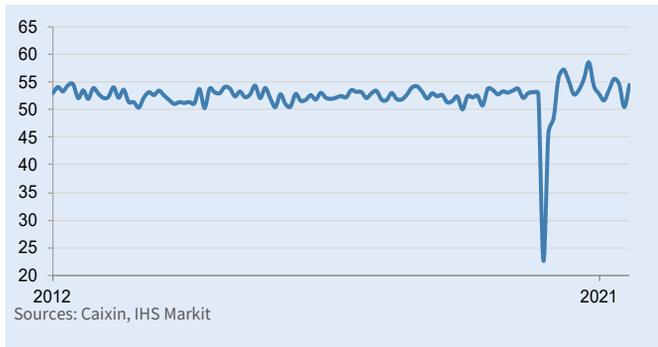
Sharper rises in business activity and new orders

Employment expands slightly amid renewed rise in backlogs of work

Operating expenses increase at faster pace

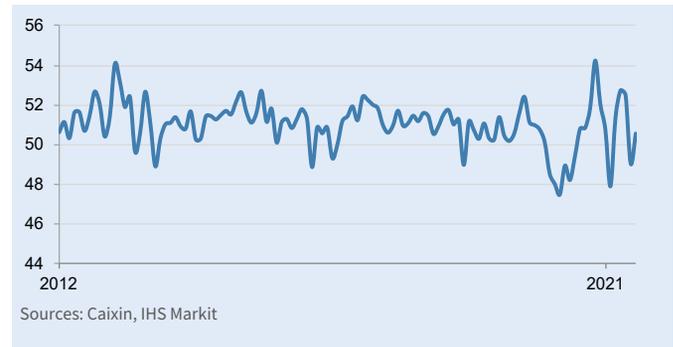
New Business Index

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 rose to 54.9 in July, up from 50.3 the previous month, its 15th consecutive month in expansionary territory.

"Services supply and demand have both expanded for 15 straight months. As the epidemic in the Pearl River Delta region was brought under control, the recovery of services supply and demand accelerated. In July, the gauges for both business activity and total new business increased by at least 4 points from the previous month. Market demand in the services sector largely picked up. Due to the resurgence of Covid-19 overseas, new export business dipped in July from the previous month.

"The job market for services improved. Although the measure for employment fell into negative territory in June, employment in the services sector was not bad overall. In July, the measure for employment bounced back into expansionary territory, as enterprises gradually increased hiring in a response to growing market demand. Still, rising labor costs suppressed the growth rate

of hiring.

"Prices in the services sector rose, indicating that inflationary pressure again increased. The downward trend in the gauges for input prices and prices charged by service companies in June did not last, with both rising in July, indicating a surge in inflationary pressure. Labor, energy and raw material prices all increased. As a result, input prices rose for the 13th straight month in July. That led to the gauge for prices charged by service enterprises to rise more than 4 points from the previous month.

"Service companies remained optimistic. The measure for business expectations ticked up in July, but was still slightly lower than its long-term average. Surveyed enterprises hoped the epidemic would remain under control and that their production capacity could further recover."



Caixin China General Composite PMI™

Total business activity rises solidly in July

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 posted 53.1 in July, up from a 14-month low of 50.6 in June, to point to a stronger rise in overall Chinese business activity. Notably, the rate of growth was solid and above the long-run series average. Sector data showed that the upturn was predominantly driven by a steep increase in services activity, as manufacturing output expanded only slightly.

New business at the composite level also rose at a quicker pace, albeit modestly overall, as a sharp rise in new work at services companies was partially offset by a renewed fall at goods producers. New orders from abroad meanwhile continued to rise only slightly.

Latest data also showed that input costs and output charges rose at faster rates than in June. At the same time, employment increased only marginally.

Comment

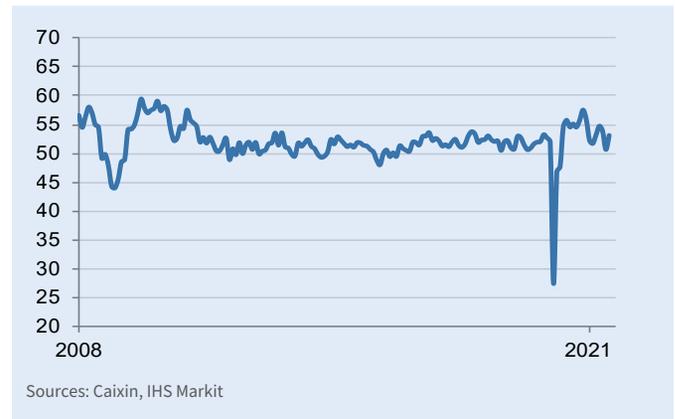
Commenting on the China General Composite PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

"The Caixin China General Composite PMI came in at 53.1 in July, up from 50.6 the month before. The gauges for output, total new orders, new export business and employment were all in expansionary territory. However, the gauges for input and output prices also remained well above 50, so we still need to be wary of inflationary pressure.

"Overall, the manufacturing and services sectors continued to grow in July. Both supply and demand maintained the upward trend, and the employment market stayed stable. The gauges for input and output prices in both the manufacturing and services sectors remained high, indicating immense inflationary pressure. As the July surveys of Caixin China PMIs were conducted after the epidemic in Guangdong province was brought under control, and before Covid-19 resurged in Jiangsu province, the services sector expanded rapidly, though the manufacturing sector was slightly weaker. The resurgence of the epidemic in some parts of China at the end of July is expected to hurt August's PMI readings. China's official second-quarter economic figures were in line with expectations, but the Caixin China PMIs in July suggest that the economic recovery is not on sure footing. The economy still faces enormous downward pressure, and we need to ensure business owners remain confident."

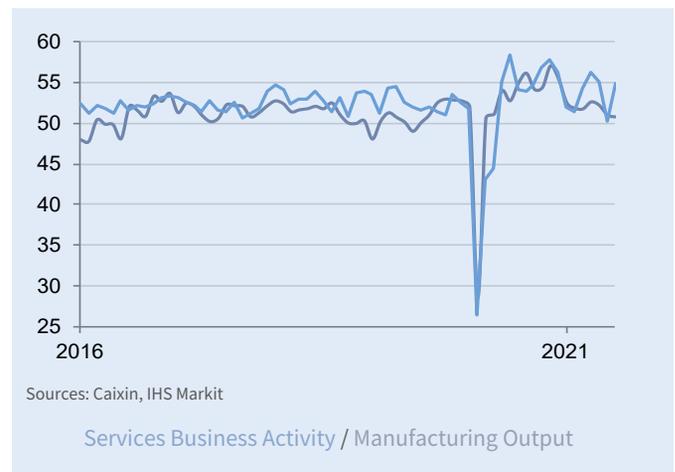
China General Composite Output Index

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 12-22 July 2021.

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>.

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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