

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector activity continues to rise solidly in July

Chinese services companies had a strong start to the third quarter of the year, according to latest PMI data, with business activity across the sector rising solidly overall. The upturn was supported by a marked and accelerated rise in overall new business, which encouraged firms to expand their payroll numbers for the sixth month in a row. However, services companies were slightly less optimistic when assessing the 12-month outlook for business activity, with overall confidence slipping to the lowest level since last November. Turning to prices data, companies signalled softer rises in both input costs and output charges.

The seasonally adjusted headline Caixin China General Services Business Activity Index posted 54.1 at the start of the third quarter, up from June's five-month low of 53.9. The reading pointed to an expansion of business activity across China's service economy for the seventh straight month, with the rate of growth solid overall. That said, the upturn was softer than seen on average over the first half of the year.

Supporting the further marked increase in activity was a solid and accelerated rise in overall new business during July. Companies often mentioned that firmer market conditions and greater client numbers had boosted new orders. The steeper rate of total sales growth occurred despite a softer improvement in new export business. Notably, foreign demand for Chinese services expanded at a marginal pace that was the slowest for six months, which was often attributed to a sluggish global economic environment.

The sustained improvement in sales and rising business requirements prompted firms to add to their workforce numbers again in July. Though mild, the rate of payroll growth was the best recorded for four months. However, the increase in employment was insufficient to ease overall capacity pressures, as highlighted by a further rise in outstanding work. The level of work-in-hand (but not yet completed) at service providers rose at the quickest pace since April, albeit modestly overall.

Input price inflation softened in July, dropping to its lowest level since February. The rise in operating expenses also remained below the survey average. Companies that noted higher input costs linked this to a variety of factors, including greater staff, raw material, transport, and accommodation fees.

Firms responded to higher input costs by raising their own prices at the start of the third quarter. In line with the trend for expenses, the rate of selling price inflation softened from June, with charges rising only slightly overall.

Finally, companies continued to express optimism towards the 12-month outlook for business activity during July. The degree of positive sentiment moved back below the series average, however, slipping to an eight-month low overall. While many firms anticipate that economic conditions will strengthen at home and overseas over the next year, others expressed concerns around the current sluggish global economic environment.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

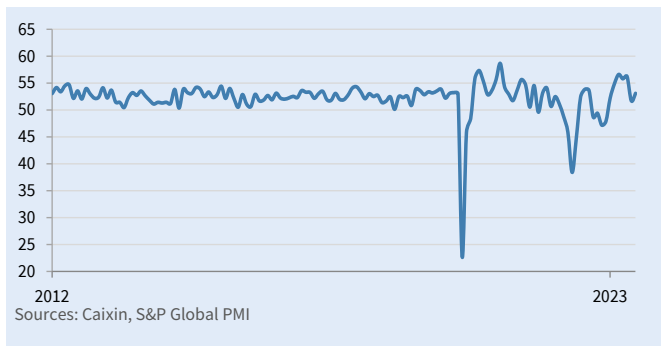
Strong upturn in business activity amid quicker rise in sales

Staff numbers increase at fastest rate in four months

Inflationary pressures ease

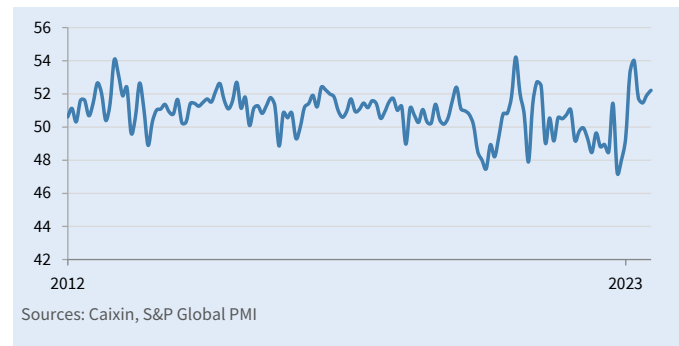
New Business Index

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 54.1 in July, 0.2 points higher than the June reading and remaining in expansionary territory for the seventh straight month. However, the July reading fell short of the 55.5 average of the previous six months.

“Both service supply and demand continued to expand in July. Market conditions in the sector kept improving, business activities further increased, and demand expanded accordingly. The readings for business activity and new business have both stayed above 50 for the seventh consecutive month. But growth in external demand has slowed significantly, with the gauge for new export business only slightly higher than 50. Surveyed companies said that the economic outlook overseas was unclear, which had limited service exports.

“Employment in the services sector continued to expand, and the corresponding gauge has remained above 50 for the sixth consecutive month. With both market supply and demand booming, service providers hired more people to expand capacity. But that

wasn’t enough to handle outstanding business in a timely manner, and the reading for backlogs of work has stayed in expansionary territory for the 12th month in a row.

“Prices in the services sector grew slightly in July. Affected by the increased costs of manpower, raw materials, transportation and accommodation, the gauge for input costs has remained in expansionary territory for 37 months in a row, although growth slowed in July compared with the previous few months. As market competition was still tight, there was limited room for service companies to raise prices for customers. The relevant measure stayed in positive territory for 15 consecutive months, but the July reading was lower than 51.

“Service providers remained optimistic, expressing confidence in the market outlook for the coming year, although they were also concerned about the sustainability of global economic growth. In July, the reading for future activity expectations was more than 3 points lower than the historical average.”



Caixin China General Composite PMI™

Composite output expands at slowest rate for six months

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.

At 51.9 in July, the seasonally adjusted Composite Output Index fell from 52.5 in June but remained above the crucial 50.0 level to signal an expansion of overall Chinese business activity for the seventh month in a row. However, the rate of growth was the softest recorded since January and only mild. Sector data revealed that a marked rise in services activity helped to offset a renewed decline in manufacturing production.

Total new business also increased at the softest pace for six months. Divergent trends were seen at the sector level, with service providers noting a stronger rise in sales while factory orders declined for the first time since April. Composite employment expanded slightly for the second month running, which was also driven by the service sector, as job shedding persisted at manufacturers. Overall cost pressures remained subdued, with total input costs rising marginally, while output charges at the composite level fell for the fourth straight month.

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 for July came in at 51.9, down 0.6 of a point from the previous month and marking the lowest reading since January. The uneven recovery of the services and manufacturing industries has been a prominent issue. Although the manufacturing sector was a drag, the steady expansion of the services industry still helped overall output, demand, and employment remain in positive territory. The contraction in exports was relatively pronounced, input costs have risen slightly, and output prices have dropped slightly. Expectations for future output were still optimistic, but the gauge recorded a new low since November.”

“China’s economic recovery in the first quarter exceeded expectations, but the momentum weakened in the second quarter. Although the data for industrial production and investment in June showed some signs of recovery, macroeconomic growth remained sluggish, and considerable downward pressure on the economy persisted.”

“The July Politburo meeting highlighted that the current economy faces new difficulties and challenges, and that the external environment is complex and severe. The meeting emphasized the need to actively expand domestic demand and let consumption play a fundamental role in driving economic growth. In terms of policies, the top priorities should still be guaranteeing employment, stabilizing expectations and increasing household income. At present, monetary policy only has a limited effect on boosting supply. An expansionary fiscal policy that targets demand should be prioritized.”

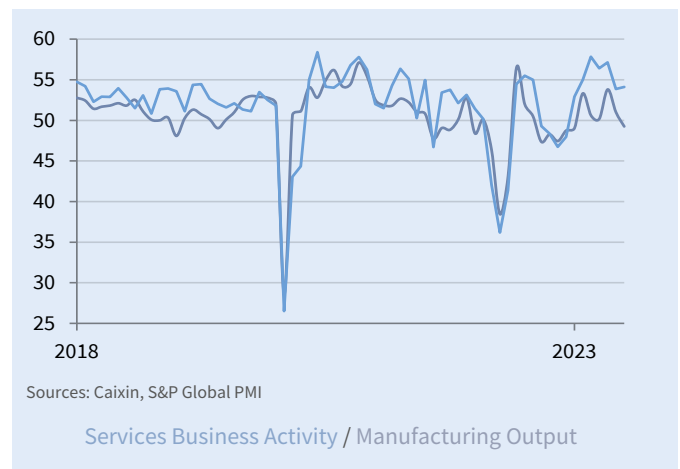
China General Composite Output Index

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 S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 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 12-21 July 2023.

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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