

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector expansion slows in August

Latest PMI data signalled a softer expansion in service sector output in China during August. Business activity increased at the slowest pace in eight months amid a softer rise in overall new work. Notably, new business from abroad fell for the first time in 2023 so far. Nevertheless, companies remained optimistic around the 12-month outlook, and planned company expansions supported a further increase in employment across the sector.

On the prices front, the rate of input cost inflation cooled to a six-month low, while selling prices increased at the slowest rate since April.

At 51.8 in August, the seasonally adjusted headline Caixin China General Services Business Activity Index slipped from 54.1 in July to signal a modest increase in activity. While service sector output has now risen in each of the past eight months, the latest upturn was the slowest recorded over this period.

The slowdown in business activity coincided with a weaker increase in overall new business. New orders increased modestly, and at a pace that was below the average seen for 2023 to date. Data suggested that this was partly due to weaker foreign demand for Chinese services. New export business fell for the first time since December 2022, albeit marginally, amid reports of sluggish overseas market conditions.

Although growth momentum slowed, companies continued to add to their staffing levels during August. The rate of job creation was little-changed from July and modest, amid reports of higher business requirements and plans to expand capacity.

Business confidence around the 12-month outlook remained positive in August. Companies often linked growth forecasts to projections of stronger global economic conditions and improved customer numbers. That said, overall optimism edged down slightly from July, reaching a nine-month low.

Outstanding business meanwhile accumulated further in August, despite the sustained rise in headcounts. Companies often mentioned that backlogs of work had increased due to greater amounts of new orders and subsequent pressure on capacity. Though modest, the rate of accumulation was the most pronounced since January.

Cost pressures continued to ease in August, with average input costs across China's service sector increasing at the softest pace in six months. Higher operating expenses were generally linked to increased raw material, staff and fuel costs.

Competitive market pressures dampened the overall pricing power of Chinese service providers in August, with output charges increasing only slightly. Furthermore, the rate of inflation was the weakest seen since April.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

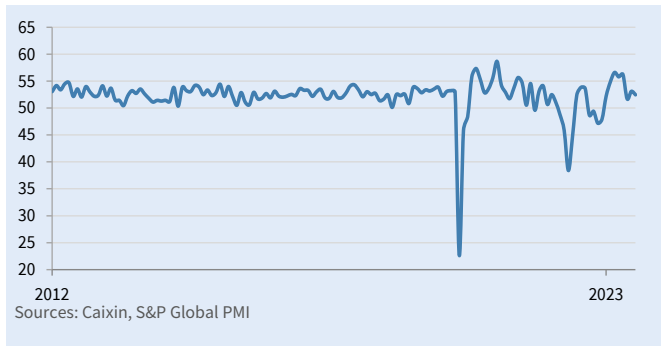
Softer increases in business activity and new orders

Employment rises further amid higher backlogs

Input cost inflation dips to six-month low

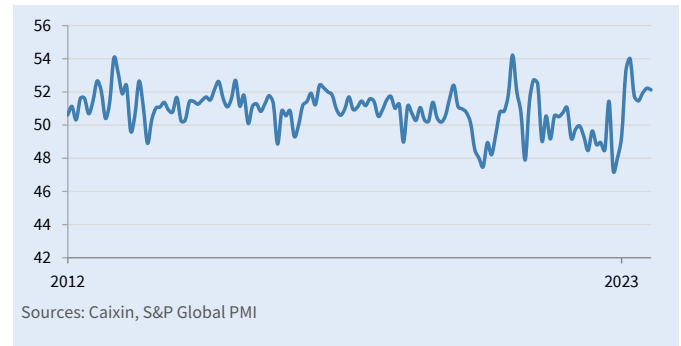
New Business Index

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 fell 2.3 points in August from the previous month to 51.8, the lowest reading in eight straight months of expansion.

“Services supply and demand continued to expand with improving market conditions, though at a slower pace. The gauges for business activity and total new business remained above 50 for the eighth consecutive month, but both readings were lower than in July. External demand dragged on growth in August, as new export business contracted for the first time since December.

“Employment in the services sector continued to expand. Although demand growth slowed, service providers intended to expand employment and capacity, as the gauge for service employment remained in expansionary territory for the seventh straight month. But the increased manpower wasn’t sufficient to handle outstanding business, with backlogs continuing to grow, as seen in previous months.

“Prices in the services sector increased slightly in August. Affected

by higher costs of raw materials, manpower and energy, input costs rose marginally. The corresponding gauge has remained in expansionary territory for 38 months in a row. As market competition was still tight, there was limited room for service companies to raise prices for customers, with the gauge for prices charged recording the lowest level in four months.

“Service providers remained optimistic, expressing confidence in the market outlook. But overall optimism was limited, as the August reading for their expectations about future activity recorded the lowest reading since November.”



Caixin China General Composite PMI™

Overall business activity expands at softest rate since January

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 seasonally adjusted Composite Output Index edged down from 51.9 in July to 51.7 in August, to signal an expansion of total Chinese business activity for the eighth month in a row. That said, the latest reading pointed to only a modest rate of growth that was the slowest since January. A softer expansion in services activity was only partly offset by a renewed, albeit mild, increase in factory production.

Composite new orders also rose modestly in August. Nevertheless, the rate of growth was the best seen since May. Trends diverged on a sector basis, with a renewed upturn in manufacturing sales counteracting a growth slowdown in the service sector. Total employment increased at the strongest pace since February, with both manufacturers and services providers noting modest rates of job creation. Composite input price inflation picked up to a five-month high but remained subdued overall. Measured overall, selling prices were broadly stable.

Comment

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

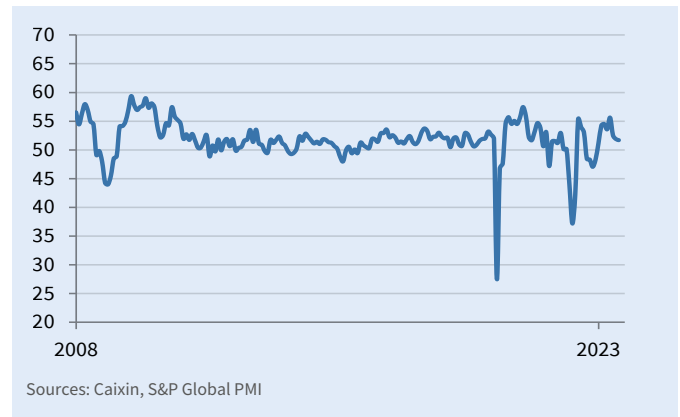
“The Caixin China General Composite PMI for August came in at 51.7, down 0.2 of a point from the previous month and once again marking the lowest reading since January. The marginal slowdown in the services sector’s supply and demand expansion offset the improvement in manufacturing production and demand. The gauge for composite employment rose more than 1 point from a reading already above 50 in July, thanks to a boost from manufacturing employment. External demand was under pressure, prices remained stable, and companies’ expectations for future activity remained in expansionary territory but recorded the lowest reading since November.”

“Overall, the manufacturing sector improved in August, the services sector grew at a slower pace, and there was still considerable downward pressure on the economy. At the beginning of the third quarter, economic indicators, including those for consumption, investment and industrial production, were again lower than market expectations. The National Bureau of Statistics explained the situation with three reasons: the impact of normal seasonal fluctuations; high temperature and severe flooding in some regions; and complicated global political and economic conditions, coupled with insufficient domestic demand.”

“Looking ahead, seasonal impacts will gradually subside, but the problems of insufficient domestic demand and weak expectations may form a vicious cycle for a protracted period of time. Combined with the uncertainty in external demand, the downward pressure on the economy may continue to increase. Stabilizing expectations and increasing household income should remain the policy focus. The internal and external economic environments are becoming increasingly complex, adding to the urgency and necessity of implementing relevant supportive policies.”

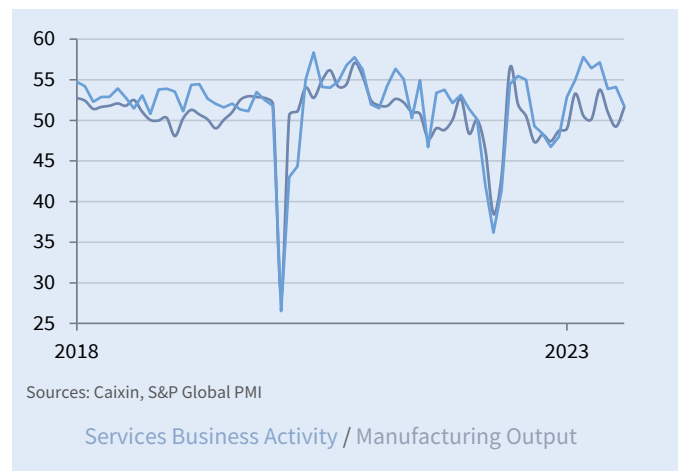
China General Composite Output Index

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 10-22 August 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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Contact

Dr. Wang Zhe
Senior Economist
Caixin Insight Group
T: +86-10-8590-5019
zhewang@caixin.com

Ma Ling
Brand and Communications
Caixin Insight Group
T: +86-10-8590-5204
lingma@caixin.com

Annabel Fiddes
Economics Associate Director
S&P Global Market Intelligence
T: +44 1491 461 010
annabel.fiddes@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +82 2 6001 3128
sungha.park@spglobal.com

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