

PMI

Caixin China
General Services
PMI Press Release

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Caixin China General Services PMI™

Service sector expansion accelerates in March

Latest PMI data pointed to a further recovery in business activity across China's service sector, with the rate of growth accelerating to a 28-month high. Increased activity levels were linked to sustained improvements in operating conditions and new order intakes following the recent easing of COVID-19 measures. Notably, new export business expanded at the quickest rate on record. Efforts to keep up with rising business requirements led to a solid upturn in employment. Cost pressures picked up, with input costs rising to the greatest extent in seven months, but selling prices continued to rise only slightly due to competitive pressures.

Although overall business confidence slipped further from January's near 12-year high, it remained historically strong as firms anticipate further increases in demand and activity in the months ahead.

The seasonally adjusted headline Business Activity Index rose further above the neutral 50.0 level in March, from 55.0 in February to 57.8, to signal a sharp and accelerated increase in service sector activity. The upturn extended the current sequence of growth to three months, with the rate of expansion the best recorded since November 2020.

The increase in activity was supported by a sustained and sharper rise in new business. Total new work also rose at the fastest rate in 28 months and sharply overall. Firms frequently attributed higher sales to the recent roll back of pandemic measures and subsequent improvements in operating conditions and customer numbers. Moreover, new export business expanded at the quickest rate since the respective series began in September 2014.

Increased business requirements amid the sustained rise in new orders led firms to expand their payroll numbers for the second straight month. Furthermore, the rate of job creation was the quickest recorded since November 2020 and solid overall.

Despite the further upturn in employment, backlogs of work rose again in March. The rate of accumulation accelerated on the month but was mild overall. Firms widely linked the latest increase in unfinished business to greater amounts of incoming new work and subsequent pressure on capacity.

Latest survey data indicated that cost pressures picked up at the end of the first quarter, with average input prices rising at a solid pace that was the quickest since August 2022. Increased staffing costs and raw materials prices were cited as key sources of inflation. Efforts to remain competitive limited firms' abilities to pass on higher cost burdens to clients, however, as highlighted by a marginal rise in prices charged by service providers.

Expectations that market conditions and customer demand will revive further in the coming months off the back of looser COVID-19 policies meant that services companies were generally optimistic that business activity will continue to rise over the coming year. Although slipping to a three-month low, the degree of positive sentiment remained strong in the context of historical data.

China General Services Business Activity Index

sa, >50 = growth since previous month



Key findings:

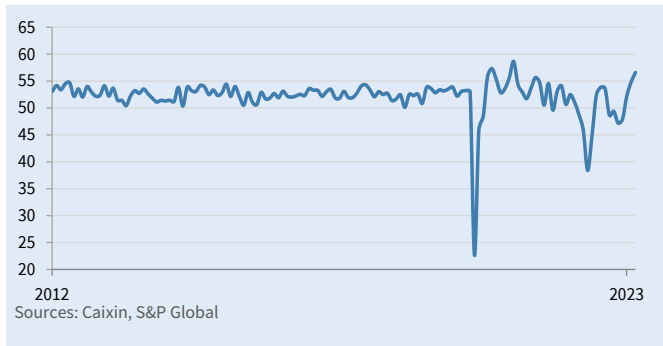
Sharpest increases in activity, sales and employment since November 2020

Business confidence remains historically strong

Input price inflation picks up to seven-month high

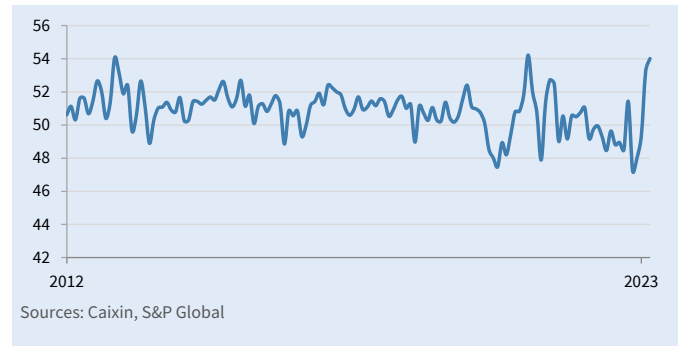
New Business Index

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 in March rose 2.8 points from the previous month to 57.8, a high not seen since November 2020. Services activity recovered at a faster pace following a Covid-19 policy shift.

“Services supply and demand expanded rapidly last month. The market returned to normal quickly after the most recent wave of Covid-19 infections subsided, fueling both supply and demand. In March, the gauges for business activity and total new business continued to rise within expansionary territory, both reaching their highest level since November 2020. Moreover, the easing of international travel restrictions boosted services exports, with the measure for new export orders logging the highest reading since records began in September 2014.

“Employment in the sector continued to improve, with the corresponding reading hitting its highest since November 2020, as businesses hired more workers in response to the fast recovery in market demand. Yet the influx of workers was not able to fulfill all

new orders, causing backlogs of work to continue to grow.

“Prices ticked up. Elevated costs of raw materials and labor caused input costs for businesses to rise at a faster pace. Meanwhile, the bargaining power of service providers for prices charged remained limited, with the corresponding gauge standing only slightly above 50 in March.

“There was still a lot of optimism in the services sector in March, as businesses continued to express confidence in an economic recovery following the scrapping of Covid controls. The reading for expectations for future activity remained significantly higher than the long-term average, although it slipped slightly for the second straight month.”



Caixin China General Composite PMI™

Business activity growth picks up to nine-month high

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 54.5 in March, the seasonally adjusted Composite Output Index increased from 54.2 in February and signalled a third consecutive monthly rise in total business activity across China. Notably, the rate of expansion was the steepest recorded since June 2022 and solid. Underlying data showed that an accelerated rise in services activity offset a softer upturn in manufacturing output.

Total new business meanwhile rose at a strong pace that was only fractionally slower than February's 21-month record. While growth in new orders gathered pace at services firms, manufacturers noted a weaker upturn in sales. New export work meanwhile fell slightly on the month, driven by a fresh fall in foreign demand for manufactured items.

Employment rose modestly for the second month running at the end of the first quarter, while inflationary pressures were broadly stable and only mild.

Comment

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

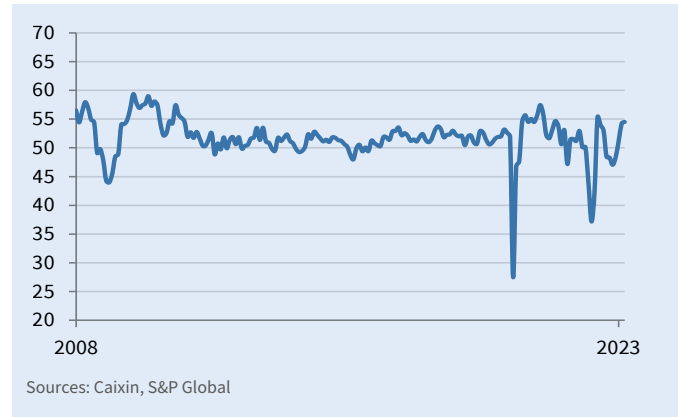
"In March, the Caixin China General Composite PMI came in at 54.5, up 0.3 points from the previous month, maintaining an uptrend within expansionary territory.

"Production, demand and employment all grew, with the services sector showing a stronger expansion, whereas manufacturing activity turned comparatively sluggish. Input costs and prices charged remained stable, and businesses were highly optimistic.

"Covid infections quickly peaked after China dropped its "zero-Covid" policy in December, and the economy entered a period of fast recovery. But in March, the manufacturing and services sectors diverged, with services activity picking up at a faster pace, while manufacturing activity dragged, reflecting that the foundation for economic recovery is not yet solid. Looking forward, economic growth will still rely on a boost in domestic demand, especially an improvement in household consumption. Only by working hard to stabilize employment, increase household income, and improve market expectations, can the government reach its goal of restoring and expanding consumption."

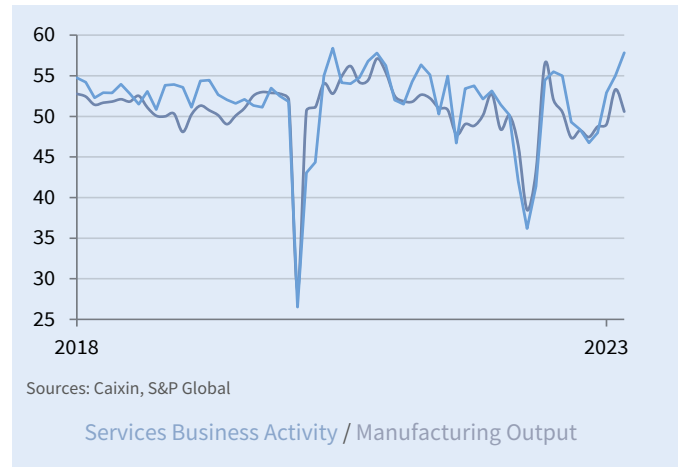
China General Composite Output Index

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 10-23 March 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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