

Caixin China General Services PMI Press Release

2022.06

Caixin China General Services PMI™

Steep rise in services activity as COVID-19 measures are loosened

Chinese services companies registered a steep increase in business activity during June, according to latest PMI data, as the domestic COVID-19 situation improved and containment measures were loosened. New orders also returned to growth, rising modestly overall, while the downturn in foreign client demand softened notably. Firms trimmed their staffing levels at a softer pace, while backlogs of work rose only slightly. June saw a sustained slowdown in the rate of input price inflation, with costs rising only slightly. At the same time, efforts to attract new work led to only a marginal increase in prices charged.

When assessing the 12-month outlook for business activity, firms remained upbeat in June. That said, the degree of confidence was little-changed from May and remained below the series average.

At 54.5 in June, the seasonally adjusted headline Business Activity Index rebounded sharply from 41.4 in May to signal a renewed and marked rise in activity across China's service sector. The upturn ended a three-month period of falling output, with the rate of expansion the quickest recorded since July 2021. Survey respondents frequently mentioned that an improvement in the domestic COVID-19 situation and easing of restrictions had supported the recovery in activity.

A return to more normal business conditions and higher client numbers also drove a renewed increase in overall new business in June. Though modest, the rate of growth was the quickest seen in the year to date. While foreign demand fell for the sixth month in a row, the rate of contraction eased notably on the month and was only marginal.

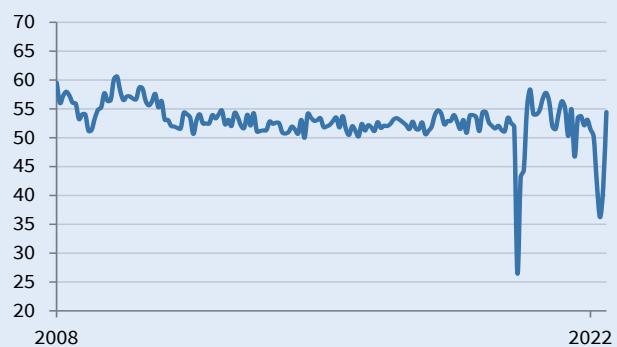
Although firms saw fresh rises in activity and new work, employment across China's service sector continued to decline in June. The rate of job shedding was the softest seen for three months, however, and only slight. Lower staffing levels were often linked to cost-cutting initiatives and resignations amid the pandemic. At the same time, capacity pressures appeared to ease in June, with outstanding business expanding at only a marginal rate. A number of firms mentioned that the resumption of operations had helped them to clear backlogs in a more timely manner.

Latest data showed a further slowdown in the rate of input price inflation in June. Notably, the rate of increase was the slowest seen in the current 24-month sequence of rising costs and only fractional. Prices charged by services companies also increased at a slower pace, as efforts to boost competitiveness and attract sales restricted overall pricing power.

The overall level of business confidence regarding the 12-month outlook for activity remained strong in June, albeit broadly unchanged on the month. As a result, optimism remained weaker than the long-run trend. While some firms cited forecasts of a sustained post-pandemic recovery, others expressed concerns over any lingering impacts of the pandemic on their operations and customer demand.

China General Services Business Activity Index

sa, >50 = growth since previous month



Sources: Caixin, S&P Global

Key findings:

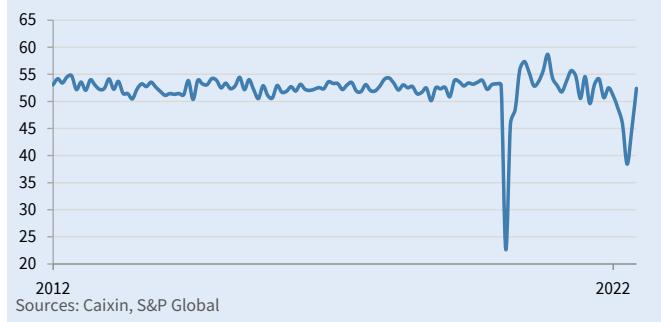
Strongest upturn in business activity for 11 months

Renewed increase in overall sales, despite slight drop in export orders

Inflationary pressures weaken

New Business Index

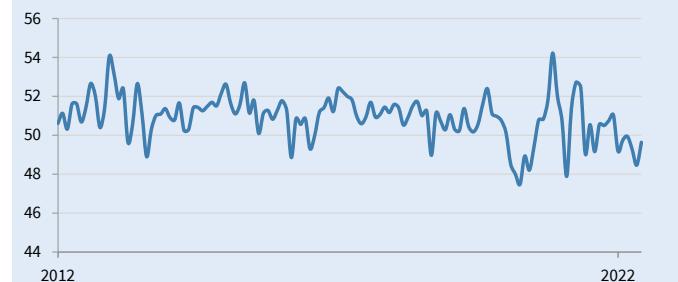
sa, >50 = growth since previous month



Sources: Caixin, S&P Global

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, better known as the Caixin services PMI, jumped to 54.5 in June, up 13.1 points from the previous month to hit the highest reading since July. Regional Covid outbreaks were brought under control, which contributed to the services sector's recovery."

"Supply and demand in the services sector expanded. With the easing of Covid restrictions, services operations started to return to normal. Both the services PMI and the gauge for new business returned to positive territory in June, with supply improving more than demand. The measure for new export orders remained in contractionary territory for the sixth straight month, but rose close to 50. This shows that overseas demand gradually stabilized, although pandemic-related effects lingered."

"Services employment contracted. Recovery in supply and demand did not spill over into the shrinking labor market, with companies still cautious about expanding hiring as they sought to keep costs down. The employment gauge remained in negative territory for the

sixth straight month. Backlogs of work grew."

"Price gauges remained stable. High raw material and freight prices accounted for the major cost pressures on companies, some of which cut staff in response. The gauge for input costs fell to the lowest since June 2020, yet stayed in expansionary territory for the 24th straight month. The measure for prices charged was slightly above 50 due to limited bargaining power of service companies."

"Businesses were moderately optimistic. The measure for future activity expectations remained almost unchanged from the previous month. Surveyed companies expressed concerns about the long-lasting impacts of the pandemic on the economy."

Caixin China General Composite PMI™

Sharpest increase in total business activity for 18 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. The China Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

The seasonally adjusted Composite Output Index rose sharply from 42.2 in May to 55.3 in June, to signal a renewed and sharp increase in overall Chinese business activity. Furthermore, the rate of increase was the steepest recorded for a year-and-a-half, with both manufacturers (56.4) and service providers (54.5) seeing renewed and strong upturns in output as pandemic restrictions eased and operations resumed.

A more modest recovery was seen for total new orders, which nonetheless increased at the fastest pace since October 2021. New export business also rose in June, expanding at the quickest rate for 19 months, albeit mildly overall.

Composite employment meanwhile fell marginally, with job shedding seen at both manufacturers and service providers. Prices data showed a further easing in the rate of input price inflation, which hit the weakest since September 2020, while prices charged were unchanged.

Comment

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

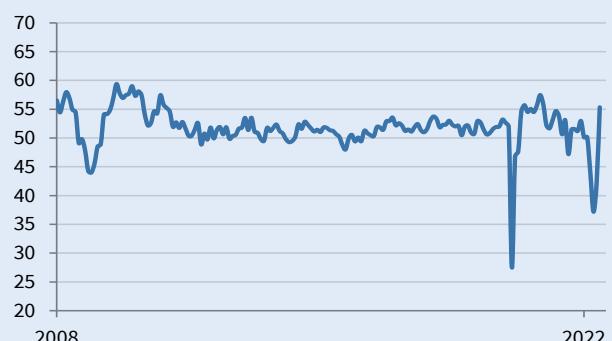
"The Caixin China General Composite PMI jumped to 55.3 in June, up 13.1 points from the previous month. Supply, demand and exports improved in lockstep, with supply recovering at a higher speed. Employment remained weak and backlogs of work remained unchanged. Companies' input costs continued to rise, especially for manufacturers hurt by high raw material and logistics costs."

"Overall, regional Covid outbreaks were put under control and restrictions were loosened in June, facilitating a gradual recovery in business operations. The supply side was the first to reflect improvements in production and logistics, while it will take more time to restore demand. The rebound in the services sector, which was hit harder by Covid outbreaks, was stronger than that of the manufacturing sector. Job creation lagged behind these positive developments, with the gauge for employment remaining in contractionary territory. Manufacturers still faced high cost pressure and profit challenges."

"Restoration in the post-pandemic era remained the focus of the current economy, yet its foundation still had some weaknesses. Deteriorating household income and expectations caused by a weak labor market dampened the demand recovery. Correspondingly, supportive policies should target employees, gig workers and low-income groups impacted by the outbreaks."

China General Composite Output Index

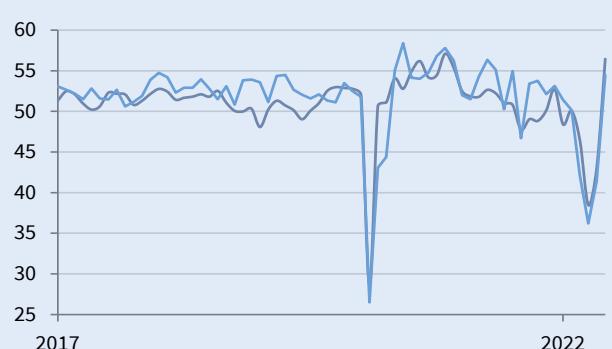
sa, >50 = growth since previous month



Sources: Caixin, S&P Global

Index by sector

sa, >50 = growth since previous month



Sources: Caixin, S&P Global

Services Business Activity / Manufacturing Output

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 13-22 June 2022.

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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