

'SLOW RECOVERY', FOR MAINLAND SERVICES SECTOR

Export orders fall and jobless rate climbs as economist calls for removing supply chain disruptions and promoting the resumption of production

Reuters in Beijing

Services activity on the mainland contracted for a third straight month in May, pointing to a slow recovery ahead despite the easing of some coronavirus lockdowns in Shanghai and neighbouring cities, a private business survey showed yesterday.

The Caixin services purchasing managers' index (PMI) rose to 41.4 in May from 36.2 in April, edging up slightly as authorities began to roll back some of the strict restrictions that have paralysed the financial city of Shanghai and rolled global supply chains.

However, the reading remained well below the 50-point mark that separates growth from contraction on a monthly basis.



Analysts say weakness in the services sector, which accounts for about 60 per cent of the economy and half of urban jobs, is likely to persist under the government's zero-Covid policy, with contact-intensive sectors such as hotels and restaurants bearing the brunt of the fallout.

An official survey last Tuesday also showed the services sector was still mired in contraction.

The Caixin survey showed new business, including new export orders, fell for the fourth straight month in May as restrictions on mobility kept customers at home and disrupted operations.

That led services firms to reduce their payrolls at a sharper rate, with a subindex for employment standing at 48.5, the lowest since February last year and down from 49.3 the previous month.

Official data showed the nationwide survey-based jobless rate had climbed to 6.1 per cent per cent in April, the highest since February 2020 and well above the government's 2022 target of below 5.5 per cent.

"The Caixin China General Services Business Activity Index (services PMI) came in at 41.4 in May, up from 36.2 the previous month. May's reading was the second lowest since February 2020 as China's Covid-19 epidemic still weighed heavily on services activities," said Wang Zhe, senior economist at Caixin Insight Group.

"The employment measure has remained in contractionary territory since the beginning of this year. The impact of the epidemic has hit the labour market. Enterprises weren't much motivated to increase hiring. As a result, outstanding business [backlogs] in the services sector grew further."

Economic activity cooled sharply in April as the country grappled with the worst virus outbreak since 2020.

To stabilise the situation in a politically sensitive year, the cabinet recently announced a package of 33 measures covering fiscal, financial, investment and industrial policies, although analysts say the official economic growth target of "around 5.5 per cent" will be hard to achieve without easing the zero-Covid strategy.

"It's necessary for policymakers to pay closer attention to employment and logistics. Removing obstacles in supply and industrial chains and promoting resumption of work and production will help to stabilise market entities and protect the labour market," said Wang, adding that they should also hand out subsidies for people whose income have been affected by the coronavirus.

Caixin's May composite PMI, which includes both manufacturing and services activity, rose to 42.2 from 37.2 the previous month.

Factory activity shrank less sharply in May, but still posted the second largest slump since February 2020, suggesting a recovery remains fragile.

The Caixin PMI is compiled by S&P Global from responses to questionnaires sent to purchasing managers in China.

BOX OFFICE SALES HIT 10-YEAR LOW

Cinema box office sales on the mainland over the Dragon Boat Festival holiday hit a 10-year low amid coronavirus control measures in various cities.

Sales for the three-day holiday that started on Friday totalled 178 million yuan (HK\$210 million) by noon on Sunday, according to figures from ticketing platform Maoyan. This compares with 251 yuan million in 2013, when the country had about 80 per cent fewer screens than the current number of 82,248.

The weak performance followed a similar 10-year low over the three-day Qing Ming holiday in April even though 80 per cent of cinemas were in operation, according to analytics firm Dengfa.

Maoyan did not disclose takings for the Dragon Boat Holiday in 2020, when Covid-19 first spread and cinemas were closed for 175 days.

"The main reason for this plunge [in takings] is Covid-19, which has affected cinema opening times and the scheduling of new films," said Han Siqi, a film and TV critic, adding that it would only be fair to attribute any downturn to other factors when the situation returned to normal.

Yu Sikun, an analyst at research firm Leadleo, agreed the lacklustre results were partly due to Covid-19 affecting scheduling decisions, with bigger film releases saved for the summer.

The top three films during this year's holiday were home-grown romantic comedy *My Blue Summer*, American cartoon *The Bad Guys* and Japanese cartoon *Doraemon: Nobita's Little Star Wars 2021*.

Cinemas in Shanghai are categorised as "crowded places" under Covid-19 rules and have not been allowed to reopen even though the city is gradually lifting restrictions. The committee of the Shanghai International Film Festival said yesterday it was postponing this year's event.

Yaling Jiang