

Caixin China General Services PMI™

Service sector activity growth rebounds to 11-month high

Summary – Services and Composite PMI data

Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled increased total business activity across China at the end of the second quarter. That said, the Composite Output Index posted 50.3 in June, down from 50.5 in May, to signal a fractional rate of growth that was the weakest in four months.

Latest data signalled a further slowdown in overall Chinese business activity, with the rate of expansion slowing to the weakest in the current four-month sequence. There were differing trends at the sector level, however, with services companies reporting a stronger expansion of business activity in June, while manufacturing output declined at the sharpest pace since February. Notably, it was the quickest increase in services activity in 11 months, with the Caixin China General Services Business Activity Index posting 52.7, up from 51.2 in May.

According to anecdotal evidence, services activity growth rebounded due to increased amounts of new work. This was highlighted by a further rise in total new business, with the latest increase the fastest since July 2015. Some companies commented that new projects and firmer client demand had boosted sales in the latest survey period. Meanwhile, in the manufacturing sector, new work contracted for the second month running, albeit at a marginal pace. As a result, composite new orders rose only slightly during June.

Chinese service providers continued to adopt a cautious approach towards staff hiring, raising their workforce numbers only slightly for the third month in a row. In contrast, employment across China's manufacturing sector continued to decline markedly at the end of the second quarter. Consequently, employment at the composite level fell for the thirteenth successive month and at a modest rate.

Unfinished work at Chinese services companies declined for the first time in three months in June, albeit at a marginal rate. Some companies reported increased efforts to clear backlogs due to greater amounts of incoming new work. The level of work-in-hand (but not yet completed) at manufacturing companies meanwhile rose modestly. At the composite level, outstanding business rose slightly for the fourth consecutive month.

Sustained cost inflation was seen across China's service sector in June, with the rate of input price inflation picking up to a four-month high. That said, the rate of increase remained moderate overall and slower than the series average. At the same time, goods producers saw a renewed fall in average cost burdens. As a result, average input prices increased only slightly at the composite level.

Services companies raised their selling prices for the third month running in June. However, the rate of charge inflation was similar to those seen in the prior two months and only marginal. In contrast, manufacturing output prices were broadly unchanged from the previous month. This resulted in only a marginal rise in composite output charges during June.

June signalled further optimism across China's service sector towards the 12-month business outlook, though the degree of optimism was unchanged from May's five-month low. Anecdotal evidence suggested that increased competitive pressures had been a key factor weighing on overall business confidence.

Key points

- Services activity growth rebounds to 11-month high, as manufacturing output contracts at faster pace
- Payrolls expand only slightly at services companies, but employment declines markedly at manufacturers
- Composite input price and output charge inflation weakens further

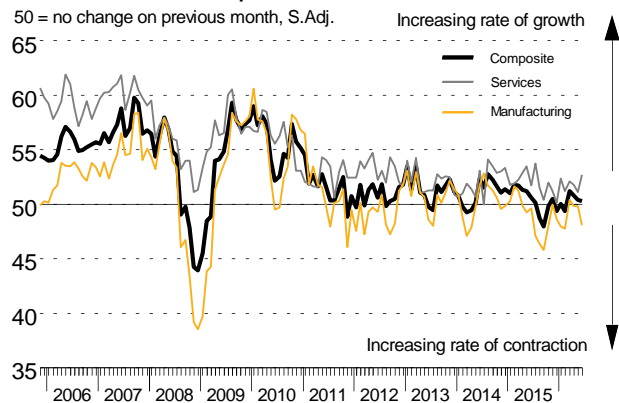
Comment

Commenting on the China General Services PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

“The headline Caixin China General Services PMI rose to 52.7 in June, the highest level in 11 months and up 1.5 points from the May reading. Performance improvements were registered in each index category, with new business orders rising to the highest level since July 2015. The Caixin China Composite Output Index for June came in at 50.3, just above the neutral mark, indicating modest growth. But it was down 0.2 points from the previous month, marking the third monthly decline in a row. Service sector growth is now supporting the overall economy, and the expansion for services is coming at a time when the manufacturing index is contracting, suggesting the nation's economic structure is becoming more balanced. The government must continue to relax service sector controls to

encourage its development and push forward the nation's economic transformation."

Caixin China Output PMI



Sources: Markit, Caixin

For further information, please contact:

Caixin Insight Group

Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis
Telephone +86-10-8104-8016
Email zhongzhengsheng@cebm.com.cn

Ma Ling, Director of Communications
Telephone +86-10-8590-5204
Email lingma@caixin.com

Markit

Annabel Fiddes, Economist
Telephone +44-1491-461-010
Email annabel.fiddes@markit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@markit.com

Notes to Editors:

The Caixin China General Services PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index™ (PMI™) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Historical data relating to the underlying (unadjusted) numbers and seasonally adjusted series are available to subscribers from Markit. Please contact economics@markit.com.

About Caixin:

Caixin Media is China's leading media group dedicated to providing financial and business news through periodicals, online content, mobile applications, conferences, books and TV/video programs.

Caixin Insight Group is a high-end financial data and analysis platform. The group encompasses the monthly Caixin China Purchasing Managers' Index™, components of which include the Caixin China General Manufacturing PMI™ and Caixin China General Services PMI™. These indexes are closely watched worldwide as reliable snapshots of China's economic health.

For more information, please visit www.caixin.com.

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About PMI:

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