

Caixin China General Services PMI™

Services activity growth slows in July, but manufacturing sector rebounds

Summary – Services and Composite PMI data

Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled a stronger expansion in Chinese business activity at the start of the third quarter. Furthermore, the Composite Output Index rose from 50.3 in June to 51.9 in July, to signal the fastest rate of growth since September 2014.

The renewed upswing in overall growth momentum was partly driven by the first increase in manufacturing output for four months, while services activity continued to expand in July. That said, the rate of services activity growth slowed since June and was moderate overall. This was shown by the Caixin China General Services Business Activity Index falling from an 11-month high of 52.7 in June to 51.7 in July.

Increased manufacturing production was generally linked to new product launches and improved marketing strategies. Notably, July marked the first increase in new work placed at goods producers since March. Meanwhile, services activity growth was widely linked by panellists to new client wins. However, in line with the trend for activity, latest data pointed to a slowdown in the rate of new order growth at services companies. Nonetheless, the renewed upturn at manufacturers led to the fastest rise in composite new orders since February 2015.

Staff numbers declined across both monitored sectors in July. It was the first time that services employment had fallen for four months, though the rate of reduction was only marginal. Meanwhile, manufacturing payrolls fell markedly, despite the rate of job shedding easing to its weakest for six months. Companies across both monitored sectors mentioned lowering workforce numbers through the implementation of cost-cutting initiatives. Overall, employment fell modestly at the composite level.

The amount of unfinished work rose at manufacturing companies during July, but declined for the second month running at service providers. The rate of backlog accumulation was solid at goods producers, which firms generally linked to lower staffing levels and greater intakes of new work. Meanwhile, services companies commented on increased efforts to clear backlogs, though the rate of depletion was only slight. As a result, unfinished workloads at the composite level rose at a modest pace.

Average input prices rose only slightly at services companies, while manufacturers recorded a solid increase in cost burdens. Furthermore, it was the weakest increase in costs faced by services providers for a year-and-a-half. While manufacturers commented that higher raw material costs for items such as steel had raised input prices, services firms mentioned that inflationary pressures stemmed from higher fuel prices. Subsequently, composite input costs rose modestly in July, after a marginal increase in June.

July survey data indicated that prices charged by both manufacturers and services providers increased further. The rate at which selling prices increased for services was only slight, while manufacturers noted a solid rate of inflation. A number of companies across both sectors mentioned passing on higher input costs to clients in the form of higher selling prices. Overall, the composite rate of charge inflation quickened since June to a modest pace.

Services companies maintained a positive stance towards future business activity in July, with the degree of optimism edging up to a three-month high. That said, confidence remained weaker than the series long-run average. Service providers that anticipate growth of activity generally cited forecasts of improving economic conditions and an expanding market size.

Key points

- Service sector activity slowdown contrasts with rebound in manufacturing output
- Composite new orders rise at fastest pace in nearly a year-and-a-half
- Employment declines at both manufacturing and services companies

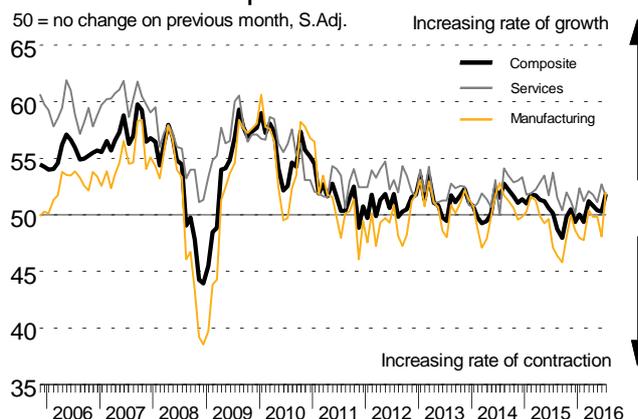
Comment

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 for July came in at 51.7, down 1.0 points from the reading for June. All of the index categories showed signs of deterioration, with employment falling back into the territory of contraction after three consecutive months of growth. The Caixin China Composite Output Index for July was 51.9, up 1.6 points from June’s reading, marking the highest level since September 2014. The improvement underlined by the composite index was mainly caused by a marked expansion in the manufacturing sector, despite service activity growing at a slower pace. Implementation of supportive measures including

proactive fiscal policies must continue to protect the recovery, and regulations in the services sector should be further relaxed.”

Caixin China Output PMI



Sources: IHS 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

IHS Markit

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

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