

Caixin China General Services PMI™

Stronger service sector performance offsets manufacturing slowdown

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) indicated only a modest expansion of overall output during May. At 51.5, the Composite Output Index rose slightly from April's ten-month low of 51.2, but nonetheless posted the second-lowest reading seen since September 2016.

Data split by sector highlighted differing trends, with service providers noting an acceleration in business activity growth while manufacturers saw only a marginal rise in production. Furthermore, goods producers registered the slowest increase in output for 11 months. In contrast, services activity expanded at a solid pace that was the quickest since January, as shown by the seasonally adjusted Caixin China General Services Business Activity Index posting 52.8 in May, up from 51.5 in April.

Stronger growth in services activity reflected a quicker increase in total new business during May. Moreover, the latest expansion in new orders was the most marked in the year-to-date and solid amid reports of stronger underlying client demand. In line with the trend for production, manufacturers saw a further slowdown in new order growth to the weakest in the current 11-month sequence of expansion. The faster increase in new orders across the service sector offset the weaker rise at goods producers, and therefore growth in composite new work held steady at April's modest pace.

Employment continued to increase across China's service sector in May. That said, the rate of job creation eased to the weakest in the current nine-month sequence of growth. Meanwhile, manufacturing firms continued to pare back staff numbers, with the latest reduction the quickest since last September. As a result, composite employment fell for the second month in a row in May and at a rate that, though marginal, was the fastest in eight months.

After a marginal fall in April, the amount of unfinished work rose slightly across services companies in May. According to panellists, higher new orders contributed to renewed pressure on operating capacity. Backlogs of work also increased across the manufacturing sector in May and at the quickest rate in 2017 so far. At the composite level, outstanding business rose at a modest rate that was the fastest for four months.

Cost pressures intensified at services companies during May, with the rate of input price inflation picking up from the six-month low in April. The solid increase in input costs was generally linked to greater prices for raw materials and higher staff costs. In contrast, manufacturing companies recorded the first fall in cost burdens since June 2016, albeit only slight. Consequently, input prices at the composite level rose at a modest pace that was the weakest in 11 months.

May survey data pointed to a further increase in prices charged for Chinese services, thereby extending the current period of inflation to 14 months. That said, the rate at which charges were raised remained slight. Reflective of the trend for input costs, manufacturers cut their selling prices in May. Though only marginal, it was the first time that factory gate charges had declined since February 2016. Output charges at the composite level were therefore broadly unchanged, which ended a 14-month sequence of inflation.

Confidence towards the 12-month outlook improved slightly across the service sector in May, with the degree of optimism lifting from April's five-month low. Manufacturing companies meanwhile expressed a strong level of positive sentiment that was unchanged from the previous month. At the composite level, optimism towards the business outlook strengthened slightly, but remained below the series average.

Key points

- Stronger services activity growth offsets weaker expansion in manufacturing output
- Solid rise in new business at services companies contrasts with marginal uptick at goods producers
- Employment at the composite level declines at faster pace

Comment

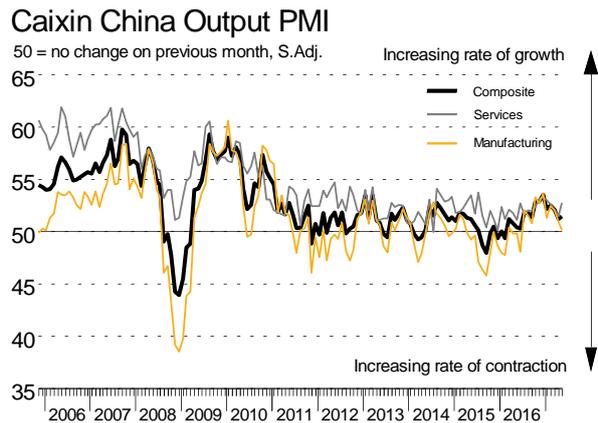
Commenting on the China General Services PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

"The headline Caixin China General Services PMI was 52.8 in May, up 1.3 points from April. It marked the first uptick this year and was the highest reading in four months. The new business sub-index hit the highest point since December and the input costs sub-index signalled stronger cost pressures. However,

the prices charged sub-index fell for the second consecutive month.

"The headline Caixin China Composite PMI came in at 51.5 in May, up by 0.3 points from the previous month but remained at a low level.

"The improvement in the services sector bolstered the Chinese economy in May. However, the rapid deterioration in the manufacturing industry is worrying. We need to closely monitor whether the diverging trends in manufacturing and services will widen further."



Sources: IHS Markit, Caixin

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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 IHS Markit. Please contact economics@ihsmarkit.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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