

Caixin China General Services PMI™

Services activity rises solidly, but manufacturing sector loses momentum

Summary – Services and Composite PMI data

The latest Caixin China Composite PMI™ data (which covers both manufacturing and services) showed that Chinese business activity expanded modestly at the end of the third quarter. At 52.1 in September, the Composite Output Index was little-changed from August's reading of 52.0, to signal that the rate of activity growth remained lacklustre compared to that seen earlier in 2018.

Latest data indicated that an improved service sector performance was broadly offset by softer manufacturing growth. Notably, the seasonally adjusted Caixin China General Services Business Activity Index picked up from 51.5 in August to 53.1, to signal the strongest increase in activity for three months. In contrast, manufacturing production rose at a marginal pace that was the weakest since October 2017.

New business followed a similar trend, with services companies registering a stronger rise in new orders. Though modest, the latest increase in service sector sales was the quickest recorded since June, with some firms linking growth to new product offerings and increased client bases. Meanwhile, new business broadly stagnated at manufacturing companies after a marginal rise in August. As a result, composite new order inflows continued to expand at a relatively subdued pace, with growth picking up only slightly from August's 26-month low.

Staffing levels fell across both the manufacturing and service sectors in September. Although the decline in services employment was only slight, it marked the first reduction in the sector for over two years. At manufacturers, workforce numbers fell at a pace that, though modest, was the quickest for 14 months. Companies across both monitored sectors indicated that company restructuring plans and the non-replacement of voluntary leavers had contributed to lower employment. At the composite level, headcounts fell at the fastest rate since August 2016.

Outstanding workloads fell at services companies in September, as has been the case in four of the past five months. That said, the rate of backlog depletion was only slight. Conversely, the level of work-in-hand (but not yet completed) rose further at manufacturers, albeit to the weakest extent in 12 months. Unfinished business at the composite level therefore rose only slightly at the end of the third quarter.

Average input costs faced by Chinese businesses rose further in September. In the service sector, the rate of input price inflation accelerated to the second-steepest since May 2012 (behind January 2018). According to panellists, higher prices for fuel, raw materials and greater staffing costs all underpinned the latest increase in operating expenses. Input costs also rose solidly at manufacturing companies, despite the rate of increase softening since August. Measured on a composite basis, input price inflation accelerated to a three-month high in September.

Despite the faster increase in input costs, services companies signalled broadly no change to their output charges, with some firms mentioning greater efforts to remain competitive. Factory gate prices meanwhile rose further in September, albeit at a modest pace. Overall, prices charged for Chinese goods and services increased at a marginal pace that was the slowest recorded since June 2017.

Chinese companies are generally optimistic that output will increase over the next year. However, the degree of positive sentiment fell to a nine-month low at manufacturers amid concerns of ongoing global trade tensions and more restrictive environmental policies, while confidence also slipped across the service sector. Measured across both sectors, expectations fell to their second-lowest in ten months.

Key points

- Stronger rise in services activity contrasts with weakest increase in manufacturing output for nearly one year
- Growth in new work remains historically subdued
- Employment falls in both sectors for the first time since July 2016

Comment

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

"The Caixin China General Services Business Activity Index rebounded to 53.1 in September from 51.5 in August. New business increased at a faster rate last month than in August, pointing to some improvement in demand. However, employment in the service industry contracted abruptly and that sub-index fell to its lowest level since March 2016. Prices charged by service providers declined for the first time in 13

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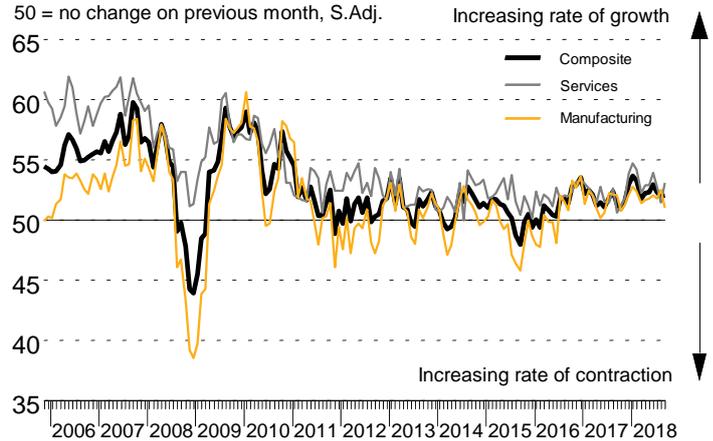
months, while input costs rose at their quickest pace since January, which could squeeze company profit margins. Reflecting that, the sub-index of business expectations, which gauges service companies' confidence toward the prospects of their operations over the next 12 months, edged down in September from the previous month.

"The Caixin China Composite Output Index inched up to 52.1 last month from 52.0 in August, indicating the performance of the Chinese economy was stable for the month. However, demand remained subdued as the growth rate for new orders, although marginally higher than the previous month, lingered at a low level. The increase in output prices slowed while the gain in input prices accelerated slightly. That meant companies were still under relatively large cost pressures, which contributed to a fall in the sub-index of future output.

"What we should be wary of is that overall employment contracted in September, with the sub-index hitting its lowest level since August 2016. The deterioration in employment will test policymakers' determination in pressing ahead with reforms."

Caixin China Output PMI

50 = no change on previous month, S.Adj.



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.

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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.

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