

Caixin China General Services PMI™

Chinese business activity rises at quickest pace for nine months

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) pointed to a solid increase in business activity across China at the end of the first quarter. At 52.9, the Composite Output Index was up from 50.7 in February to signal the strongest increase in activity since June 2018.

The higher composite headline index reading was supported by improved performances across both the manufacturing and service sectors. Furthermore, the service sector registered a solid expansion of business activity during March, with a number of firms linking the rise to stronger underlying market conditions. This was highlighted by the seasonally adjusted Chinese Services Business Activity Index rising from 51.1 in February to 54.4, to mark the quickest increase in activity levels since January 2018. Goods producers also saw a faster increase in production at the end of the opening quarter. Though modest, the rate of growth was the most marked since August 2018.

Improved trends were also seen for new orders in both monitored sectors during March. Services companies registered a solid and accelerated rise in new work that was the quickest recorded for 14 months. At the same time, manufacturing companies signalled a slightly faster, albeit still marginal, increase in new business. At the composite level, total new work expanded at a moderate pace that was the quickest seen since February 2018.

Chinese companies also saw an upturn in foreign client demand at the end of the first quarter. In the service sector, new export sales rose at the second-strongest rate since December 2017 amid reports of greater activity in international markets. Meanwhile, manufacturing firms signalled a fractional increase in new export orders, following a decline in February. Overall, new business from abroad rose slightly in March, offsetting a marginal reduction in the previous month.

March survey data indicated the first increase in composite employment across China for just over a year, though the rate of job creation was only slight. Services providers registered a fractional increase in staffing levels, with the rate of growth similar to that seen in February. At manufacturing companies, workforce numbers increased for the first time in over five years (albeit at a marginal pace).

Divergent trends were seen for outstanding workloads, with manufacturers noting a further modest increase, while services companies registered a fall. Some service providers cited greater efforts to clear backlogs of work. That said, the rate of depletion eased from February and was only marginal. As a result, the level of work-in-hand (but not yet completed) at the composite level was broadly unchanged from the previous month.

Average input prices faced by Chinese firms continued to rise modestly at the end of the first quarter. The rate of cost inflation in the service sector eased slightly since February and was moderate overall. Manufacturers meanwhile registered the first increase in purchasing costs for four months in March, though the rate of growth was only marginal.

Companies in China continued to increase their average selling prices during March, with a number of firms linking the rise to the pass-through of higher input costs to customers and signs of firmer client demand. Though modest, factory gate prices increased at the quickest rate for five months. Meanwhile, services companies raised their prices at a marginal pace that was similar to that seen in February.

Reflective of improvements in overall demand conditions, business confidence picked up slightly across both the manufacturing and service sectors during March. Services companies registered the highest level of optimism for three months, while sentiment reached a ten-month high at manufacturers. That said, expectations remained weaker than their respective long-run trends in both cases.

Key points

- Manufacturers and service providers both signal stronger increases in activity and new work
- Renewed rise in manufacturing payrolls leads to first expansion of composite employment for over a year
- Overall business confidence edges up to seven-month high

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 jumped to 54.4 in March from 51.1 in the previous month. Among the gauges included in the survey:

1) The gauge for new business surged to the highest since January 2018, pointing to improved demand for services;

2) The measure for employment continued to edge down although it remained in the expansionary territory, indicating the sector's demand for workers continued to weaken;

3) Inflation remained subdued, as the gauges for prices charged by service providers and the prices for input costs both edged down;

4) The measure for business expectations rebounded slightly from the previous month, but still signalled relatively weak confidence.

The Caixin China Composite Output Index rose to 52.9 in March from 50.7 in February, the highest since June 2018.

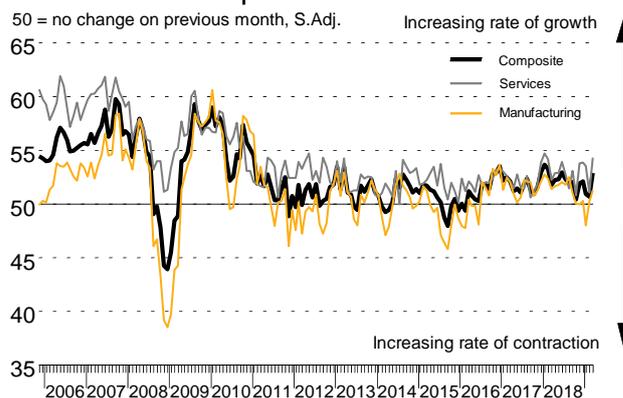
1) The gauge for new exports rebounded back into expansionary territory, and the indicator for overall new orders also jumped, suggesting that domestic demand continued to recover.

2) The employment gauge also bounced back into expansionary territory, indicating easing pressure on the labor market. The gauges for input costs and output charges both rose marginally, meaning prices are likely to remain stable.

3) Business confidence was yet to fully recover as the measure for future output only increased slightly.

In general, China's economic fundamentals recovered in March, with domestic and external demand as well as manufacturing employment improving. However, business sentiment has remained cautious, and inflation was subdued. The three-month moving average of the Caixin China General Manufacturing PMI remained in contraction territory, while the Caixin China Composite Output Index showed tentative signs of recovery following a relatively subdued start to 2019. More evidence is needed to determine whether the Chinese economy has stabilized."

Caixin China Output PMI



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 and www.caixinglobal.com.

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