

Caixin China General Services PMI™

Chinese business activity expands modestly in May

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) showed that business activity in China rose for the thirty-ninth month running in May. The rate of expansion was moderate overall, as signalled by the Composite Output Index edging down from 52.7 in April to a three-month low of 51.5.

The lower headline index reading was partly driven by a softer increase in service sector activity. The seasonally adjusted Chinese Services Business Activity Index fell from April's recent high of 54.5 to a three-month low of 52.7 in May. Nonetheless, the reading was consistent with a strong rise in output overall amid reports of firm client demand. At the same time, manufacturing output was broadly stable, following a three-month sequence of expansion.

Total new business received by services companies also rose at a softer, but still solid, rate during May. According to panellists, new product launches and promotional activities supported a further increase in sales. Factory orders meanwhile rose at a slightly faster, albeit still marginal, pace. At the composite level, new orders expanded at a moderate rate that was the least marked for three months.

New orders received from abroad rose slightly across both the manufacturing and service sectors in China during May. For services companies, this marked a notable slowdown from the sharp rate of growth seen during April. However, this signalled a renewed increase in export sales for manufacturers following a slight reduction in the previous month.

On the employment front, services companies continued to add to their workforce numbers, but manufacturers registered a further decline. Job creation in the service sector was generally linked to rising business activity, though the rate of payroll expansion eased to a marginal pace. Manufacturers meanwhile cut their staffing levels only slightly. Consequently, composite employment fell for the first time in three months, albeit at a fractional rate.

Higher staff numbers and efforts to reduce outstanding business underpinned a further fall in backlogs of work at service providers. That said, the rate of backlog depletion remained marginal overall. At the same time, unfinished workloads at goods producers continued to expand slightly in May. As a result, the level of work-in-hand (but not yet completed) at the composite level remained broadly unchanged.

Services companies registered a solid increase in operating expenses during May, despite the rate of inflation easing since April. According to panel members, greater costs for labour and raw materials pushed up input prices in the latest survey period. Average cost burdens rose only slightly for manufacturing companies. Measured across both sectors, average input prices rose at a modest pace that remained weaker than the historical average.

Efforts to remain competitive and attract new business limited the overall pricing power of Chinese companies during May. Notably, services companies raised their output charges marginally, despite a strong rise in input costs. Factory gate prices were meanwhile unchanged from the previous month, thereby ending a three-month sequence of inflation.

Latest survey data indicated that overall confidence towards the year ahead weakened to the lowest on record, which was primarily driven by weaker sentiment at manufacturers. Furthermore, expectations at goods producers were the least upbeat since the series began in April 2012, while services firms registered the lowest degree of confidence since July 2018. Subdued expectations were often linked to the ongoing China-US trade dispute and relatively subdued global demand conditions.

Key points

- Services activity rises strongly, while manufacturing production broadly stabilises
- Inflationary pressures remain subdued
- Business confidence weakens

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 fell to 52.7 in May from the recent high of 54.5 in April, although it remained firmly within expansionary territory. Among the gauges included in the survey:

1) The gauge for new business fell from the past month's recent high but remained in expansionary territory, reflecting slowing growth in demand across the services sector.

2) The measure for employment fell from the past month's recent high while remaining within expansionary territory, suggesting jobs growth is slowing.

3) Gauges for input costs and prices charged by services providers both fell slightly while remaining in expansionary territory. Growth in input costs outpaced that of prices charged, indicating that services companies remained under significant pressure.

4) The measure for business expectations continued to fall, despite staying in positive territory, reflecting services providers' weakening confidence in their future prospects.

"The Caixin China Composite Output Index fell to 51.5 in May from 52.7 the month before, mainly due to slower growth in the service sector.

1) The gauge for new orders edged down while remaining in expansionary territory, while the measure for new export orders returned to growth, pointing to weakening demand at home but improved demand abroad. The negative effects of China-U.S. tensions on exports have yet to emerge, perhaps due to exporters front-loading shipments of products that are in the remaining \$300 billion of goods not subject to punitive tariffs.

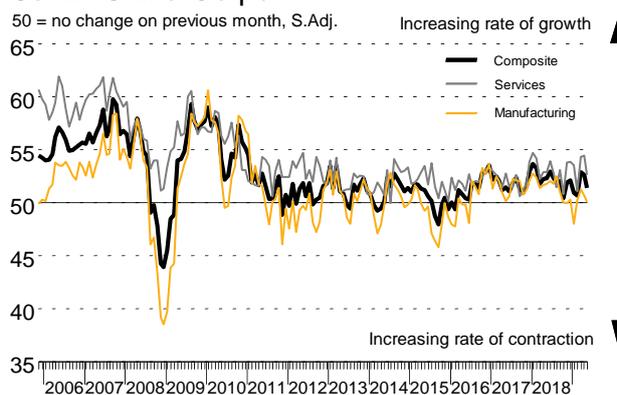
2) The employment gauge continued to fall, entering contractionary territory. This suggested the labor market is under pressure. In a move that is likely related, the State Council recently set up a new leading group on employment.

3) Both gauges for input costs and output charges edged down while remaining in expansionary territory. Growth in input costs outpaced that of output charges, indicating companies continued to be squeezed.

4) The measure for future output fell markedly, to the lowest reading since the series began in 2012, although it remained in positive territory. This indicates business confidence is in urgent need of a boost.

"Overall, China's economic growth showed some signs of slowing in May. Employment and business confidence in particular merit policymakers' attention."

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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