

Caixin China General Services PMI™

Chinese business activity expands at quickest pace for five months

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) highlighted a stronger rise in overall business activity across China at the end of the third quarter. The Composite Output Index picked up from 51.6 in August to 51.9 in September, to signal the strongest rate of growth since April.

The improved headline reading was supported by a quicker increase in manufacturing output, as September data pointed to a softer rise in business activity across the service sector. The latter was shown by the seasonally adjusted Chinese Services Business Activity Index falling from 52.1 in August to 51.3, to signal the softest rise in activity for seven months. In contrast, goods producers saw the fastest increase in production since August 2018.

Composite new orders expanded at the steepest rate since February 2018 in September, with both manufacturers and service providers recording stronger rates of growth. Notably, services companies saw the quickest rise in new orders since January 2018, with a number of firms linking the upturn to new product releases and firmer client demand. Manufacturers registered an expansion in new work that, though modest, was the quickest since March 2018.

New work from abroad at the composite level declined further in September, albeit marginally. The reduction was driven by the manufacturing sector, which recorded a fourth successive fall in export sales. In the service sector, new export work rose for the third month running, though the rate of growth eased to a modest pace.

The employment picture across China improved during September, led by stronger job creation at services companies. Though modest, the latest expansion of service sector payrolls was the quickest seen since January 2017. Meanwhile, manufacturing employment was broadly stable for the second month in a row. As a result, staffing levels at the composite level rose at the fastest pace since January 2013.

September data signalled pressure on the operating capacity of Chinese firms, with backlogs of work rising at both manufacturers and services companies. While manufacturers signalled the quickest rise in outstanding business since January 2018, this marked the first time that backlogs had risen at services providers since last December. At the composite level, unfinished workloads increased at the fastest pace for nearly one-and-a-half years.

Service providers registered a solid and accelerated increase in average operating expenses during September. Notably, the rate of inflation was the strongest recorded for one year, which was linked to greater costs for labour, fuel and raw materials. Input prices also rose at manufacturing companies, though the rate of increase was moderate. At the composite level, cost burdens expanded at the quickest rate since November 2018.

Efforts to remain competitive continued to weigh on the pricing power of Chinese companies, with composite output charges rising only slightly in September. Service providers raised their charges modestly, while manufacturers left their factory gate prices broadly unchanged.

At the composite level, business confidence regarding the 12-month outlook for activity weakened to a three-month low in September. The level of positive sentiment in the manufacturing sector was little-changed from August, while optimism in the service sector slipped to its lowest since May. In both cases, expectations were among the lowest seen in the series history.

Key points

- Slower growth in services activity offset by stronger expansion of manufacturing output
- Total new work rises at fastest pace since February 2018
- Job creation in service sector leads to strongest increase in composite employment since January 2013

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 dipped to 51.3 in September from 52.1 in the previous month, the lowest reading in seven months.

1) Among the gauges included in the survey, the one for new business rose further, hitting the highest point since January 2018 and reflecting stable demand in the services

sector. The increase was partly driven by new product launches. The gauge for new export business continued to drop, reflecting that growth in new business was mainly driven by domestic demand.

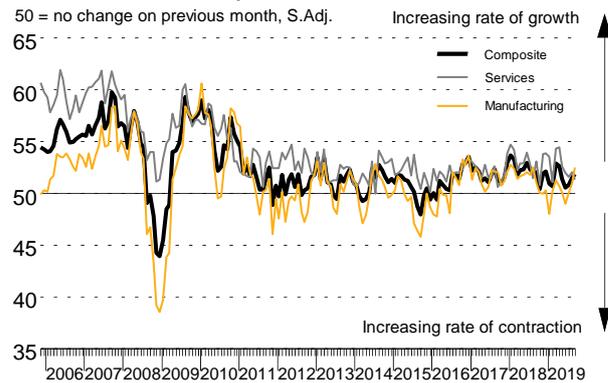
2) The employment measure increased significantly, reaching a level unseen since January 2017. The increase in employment was linked to growth in new orders.

3) The measure for input prices increased to the highest in a year, mainly driven by rising costs for labor, fuel and raw materials. However, the gauge for prices charged by service providers dipped marginally, indicating fierce competition. The gauge for business expectations dropped as rising costs restrained company confidence.

“The Caixin China Composite Output Index increased to 51.9 in September from 51.6 in August, mainly driven by strengthened growth in the manufacturing sector. The gauge for new orders increased, hitting the highest level since February 2018. Employment increased at the fastest pace since January 2013, driven by the service sector. Backlogs of work had not expanded this quickly since April 2018. The pressure on companies from rising costs was great and business confidence dipped further.

“China’s economy showed signs of marginal recovery in September, as the labor market improved and domestic demand increased at a faster pace. However, fluctuations in exchange rates, and rising costs of labor and raw materials increased pressure on companies, which restrained business confidence. Due to previous destocking and capacity-reduction activities, constraints on companies’ production capacity became more severe and backlogs of work increased noticeably, which will help companies restore their investment. After a fast slowdown in previous quarters, China’s economic growth began to show signs of stability.”

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

Joanna Vickers, Marketing and Communications
Telephone +44 (0) 207-260-2234
E-mail joanna.vickers@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone +65-6922-4226
E-mail bernard.aw@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. For the purposes of this report, China is defined as mainland China, excluding Hong Kong SAR, Macao SAR and Taiwan.

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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

The intellectual property rights to the Caixin China General Manufacturing PMI provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Caixin use the above marks under license. IHS Markit is a registered trade mark of IHS Markit Ltd. and/or its affiliates.

If you prefer not to receive news releases from IHS Markit, please joanna.vickers@ihsmarkit.com. To read our privacy policy, [click here](#).