

# Caixin China General Services PMI™

Chinese business activity growth softens at end of 2019

## Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) pointed to another strong rise in total Chinese business activity in December. However, the rate of growth eased since November, with the Composite Output Index falling from a 21-month high of 53.2 to 52.6 at the end of the year.

Underlying data showed that business activity continued to expand across both the manufacturing and service sectors, with the former noting the steeper rate of growth. Manufacturing output rose solidly overall, despite the rate of increase easing to a three-month low. In the service sector, business activity expanded strongly overall, though growth also eased from November. This was signalled by the seasonally adjusted Chinese Services Business Activity Index posting 52.5 in December, down from a seven-month high of 53.5 in November.

The total amount of new business received by Chinese companies rose solidly at the end of the year, despite the rate of expansion slipping to a four-month low. This reflected a softer rise in new work placed at goods producers, which registered a modest increase overall. In contrast, services companies recorded a solid increase in sales that was the quickest since September. Anecdotal evidence attributed the upturn in new orders to greater client numbers, new product offerings and improved marketing strategies.

New export order growth weakened in December, with both monitored sectors registering only a marginal rise in new orders from overseas. In the service sector, the slight increase contrasted with a solid expansion during the previous month. Consequently, new export business at the composite level grew at the slowest rate for three months.

Overall, employment across the manufacturing and service sectors in China rose only slightly at the end of the fourth quarter. The upturn was driven by job creation at service providers, as manufacturing firms saw no change to their staffing levels. That said, the rate of payroll growth at services companies was only marginal, with a number of companies adopting relatively cautious approaches to hiring amid efforts to contain costs and boost efficiency.

After a slight fall in November, service providers recorded higher backlogs of work at the end of 2019. Panel members often mentioned that greater volumes of new work had imparted pressure on capacities. That said, the rate of accumulation was only marginal. In the manufacturing sector, outstanding business rose at a modest pace that was the softest for four months. At the composite level, unfinished workloads rose at a slightly quicker, albeit only mild, rate.

December data pointed to a further easing in the rate of input price inflation across China. Notably, services firms recorded the slowest increase in operating expenses since March. Although input costs rose at a slightly faster rate in the manufacturing sector, the rate of inflation remained marginal and much weaker than the historical trend. As a result, cost burdens at the composite level increased at the weakest rate for four months.

Sector data highlighted contrasting trends when it came to selling prices, with an increase in factory gate prices occurring alongside a fall in service sector charges. Though modest, the increase in the manufacturing sector was the most marked seen since October 2018. Output charges set by services companies meanwhile fell for the first time since September 2018, albeit only slightly. Selling prices at the composite level therefore rose at only a fractional pace.

Manufacturing firms based in China were generally optimistic towards the one-year business outlook in December. The overall degree of positive sentiment in the goods producing sector was up from October's recent low, but still weak in the context of historical data. Meanwhile, the level of optimism expressed by service sector firms edged down to the second-lowest on record. Companies highlighted ongoing trade tensions, relatively subdued economic growth and staff shortages as factors that could dampen prospects over 2020.

## Key points

- December sees softer, but still strong, rise in business activity across China
- Total new work continues to rise solidly
- Output charges rise in manufacturing sector, but fall at services companies

## 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 52.5 in December from a recent high of 53.5 in*

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November. The expansion in the services sector remained at a relatively fast pace.

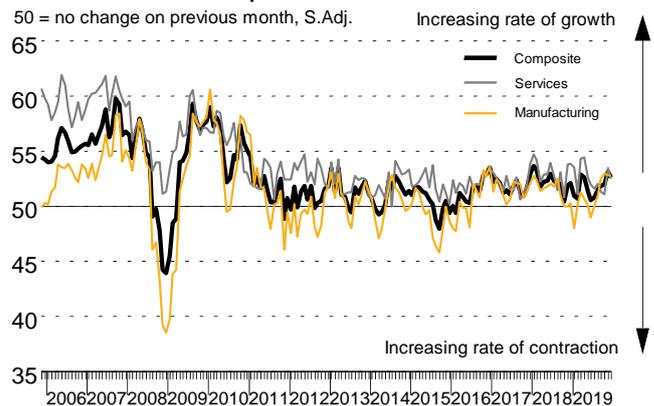
1) Domestic demand expanded at a faster pace than overseas demand. While the gauge for total new business rose for the second month in a row, the one for new export business fell from the previous month, reflecting slowing expansion of foreign demand.

2) Services supply expanded at a relatively slow clip. The measure for outstanding business returned to expansionary territory, indicating that supply growth lagged behind demand expansion. The employment gauge fell marginally to the lowest level since July, despite remaining in positive territory.

3) Business confidence was subdued. The gauge for prices charged by service providers fell into contractionary territory, hitting the lowest point since August 2017. The drop was larger than the decline in the gauge for input costs, suggesting the rise in services demand was possibly due to greater sales promotions. That had an adverse impact on business confidence, with the measure for business expectations dropping to the lowest level since late 2015.

"The Caixin China Composite Output Index dropped to 52.6 in December from 53.2 in the previous month. Rates of expansion in both the services and manufacturing sectors moderated. However, China's overall economy continued to stabilize. The gauges for new orders, employment and output prices all remained in positive territory despite modest drops. It is difficult for the measure of business confidence, which remained at a relatively low level in December, to improve. That has become a major hurdle to stabilizing the economy. Looking forward, the phase one trade deal between China and the U.S. should be able to help corporate sentiment recover. China's economy is likely to get off to a quick start in 2020, but it will still be constrained by limited demand for the rest of the year."

## 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. 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](mailto: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](http://www.caixin.com) and [www.caixinglobal.com](http://www.caixinglobal.com).

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