

Caixin China General Services PMI™

Composite output expands at quickest pace for four months in June

Summary – Services and Composite PMI data

Latest Caixin China Composite PMI™ data (which covers both manufacturing and services) showed that Chinese business activity continued to expand at the end of the second quarter. Notably, the Composite Output Index rose from 52.3 to 53.0 in June, to signal a solid rate of growth that was the steepest recorded since February.

The improvement in the headline Composite Output Index was supported by stronger growth across both the manufacturing and service sectors. Services activity expanded at the quickest rate for four months in June, as highlighted by the seasonally adjusted Caixin China General Services Business Activity Index rising from 52.9 in May to 53.9. At the same time, growth in manufacturing production also improved to a four-month record, but remained moderate and weaker than that seen in the service sector. However, rates of increase across both sectors remained weaker than those seen at the start of the year.

As was the case for output, new business continued to rise at both manufacturing and services companies during June. While new order growth across the goods-producing sector was little-changed from the previous month and modest, service providers signalled a slightly stronger rate of expansion. According to panellists, new product offerings and improved marketing strategies helped to boost new work. At the composite level, new business rose at a modest pace that matched that seen in May.

After stabilising in the prior two months, composite employment fell fractionally during June. Sector data indicated that a steeper rate of job shedding at manufacturing companies offset a slightly stronger rise in service sector staff numbers. Notably, goods producers registered the quickest reduction in headcounts for nearly one year. In contrast, services companies hired additional employees at the quickest rate since last August amid reports of rising business requirements.

June data pointed to divergent trends with regards to backlogs of work, with manufacturing firms signalling greater amounts of unfinished business and services firms a decline. That said, the rate of accumulation at goods producers was unchanged from the previous month and moderate. Meanwhile, outstanding workloads fell marginally across the service sector for the second month in a row. Backlogs at the composite level therefore rose only slightly at the end of the second quarter.

Chinese companies signalled a stronger increase in input costs during June. The rate of input price inflation reached a five-month high across the manufacturing sector, while services companies noted the steepest increase in costs since February. Panel members widely commented on greater prices for raw materials, transportation and staff in the latest survey period. Overall, input costs at the composite level rose at the sharpest rate for four months.

Higher cost burdens prompted companies to increase their prices charged again during June. Factory gate prices rose at a solid pace that was the quickest recorded since last September. Services companies meanwhile raised their charges to the most marked extent for three months, though the rate of inflation remained marginal overall. At the composite level, selling prices increased at the fastest pace since last September.

Business sentiment towards the 12-month outlook for output dipped across both monitored sectors in June. Although service providers expressed a stronger degree of optimism than manufacturers, confidence remained weaker than the historical trend.

Key points

- Output expands at quicker rates at manufacturers and service providers
- Staffing levels rise further at services companies, but continue to decline at goods producers
- Sharper rises in input costs

Comment

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

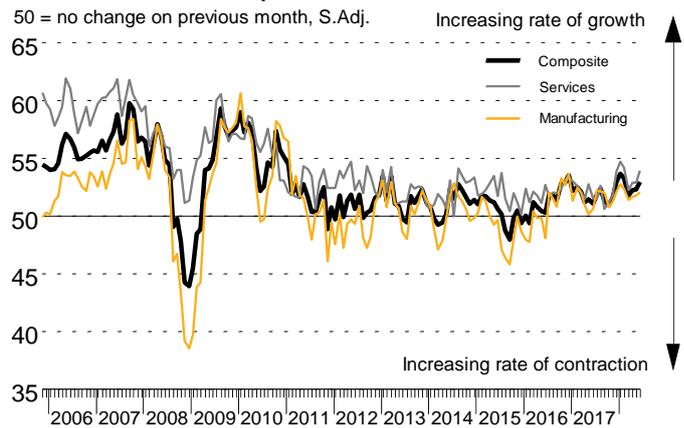
“The Caixin China General Services Business Activity Index stood at 53.9 in June, rising significantly from the previous month. The employment and new business indices both climbed moderately, pointing to a positive trend in the service supply and demand sides. Input costs rose more than prices charged, putting pressure on service providers’ confidence. The index of business expectations, a gauge of companies’

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confidence towards the 12-month outlook, dipped from a recent high seen in May.

"The Caixin China Composite Output Index, which covers both manufacturers and service providers, stood at 53.0 in June, rising significantly from a month earlier, suggesting a stable economy with a positive outlook. The latest surveys also showed stronger increases in input costs and output charges, which put pressure on margins. The indices for new orders and work backlogs were unchanged from the previous month's readings. The employment index dropped into contraction territory, indicating a deteriorating employment situation. The index of expectations regarding future output also fell, suggesting less optimism across the manufacturing and service sectors. It's doubtful that China's economic growth will maintain stable amid tightening credit and regulations."

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.

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