

Caixin China General Services PMI™

Overall business activity expands at quickest pace since February 2018

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled a solid increase in total business activity across China in November. The Composite Output Index rose from 52.0 in October to 53.2, to indicate the steepest rate of growth for 21 months.

The upturn was driven by strong performances across both the manufacturing and service sectors. Notably, service providers registered a solid and accelerated increase in activity midway through the final quarter of 2019. This was highlighted by the seasonally adjusted Chinese Services Business Activity Index rising from 51.1 in October to a seven-month high of 53.5 in November. Companies widely commented on planned company expansions, new projects and an improvement in overall demand conditions. At the same time, goods producers noted a marked increase in production, with the rate of growth little-changed from October's recent high.

The stronger increase in composite business activity reflected a further marked rise in new orders received by Chinese companies in November. In the service sector, new business expanded solidly overall, with the rate of growth picking up since October. A steep increase in new work was also seen across the manufacturing sector, albeit one that was softer than seen in the previous month. At the composite level, new orders expanded at the fastest rate since February 2018.

The amount of new work received from abroad continued to increase across China during November. Service providers recorded a steep and accelerated rise in new export sales, with the pace of expansion picking up to a four-month high. Manufacturing firms meanwhile registered a further marginal rise in new business from overseas. Measured across both monitored sectors, the amount of new work received from foreign clients rose at a modest pace that was identical to that seen in October.

After a modest drop in October, manufacturing firms saw staffing levels broadly stabilise in November. In the service sector, workforce numbers rose marginally, with the rate of job creation edging down to a four-month low. Employment at the composite level nonetheless increased slightly midway through the fourth quarter, offsetting a fractional decline in October.

Sector data for outstanding workloads showed divergent trends, with backlogs rising at manufacturers but falling at services companies. In the manufacturing sector, the rate of accumulation was solid overall, despite easing to a three-month low. In contrast, service providers registered the first decline in unfinished business since August, albeit only slight. Consequently, composite outstanding business rose at a marginal pace that was the weakest for three months.

The rate of input price inflation remained more marked across the service sector than the manufacturing sector in November. Services companies saw a solid increase in operating expenses overall, despite the pace of inflation easing for the second month in a row. Goods producers meanwhile registered only a slight increase in costs. Input prices at the composite level therefore rose at only a modest pace.

Prices charged by service providers rose modestly in November, with the rate of increase little-changed from the prior three months. At the same time, manufacturing firms recorded a fractional decline in selling prices amid reports of a general drop in market prices. As a result, output charges at the composite level rose only slightly for the third successive month.

Business confidence across China regarding output over the next year remained subdued in November, with the overall level of positive sentiment edging down since October. Weaker optimism was driven by the manufacturing sector, which saw expectations soften to a five-month low. Although services companies expressed a stronger level of confidence compared to October, sentiment was still notably softer than the historical trend.

Key points

- Both manufacturers and service providers see solid increases in output
- Composite new order growth also improves to 21-month high
- Overall inflationary pressures remain weak

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 edged up to 53.5 in November, a marked increase from 51.1 in

the previous month, marking the highest growth rate since April this year. The reading indicates a recovery in activity across the services sector.

1) The gauge for new business picked up from a recent low in October with a solid rebound in the measure for new export business, indicating domestic and foreign demand both improved.

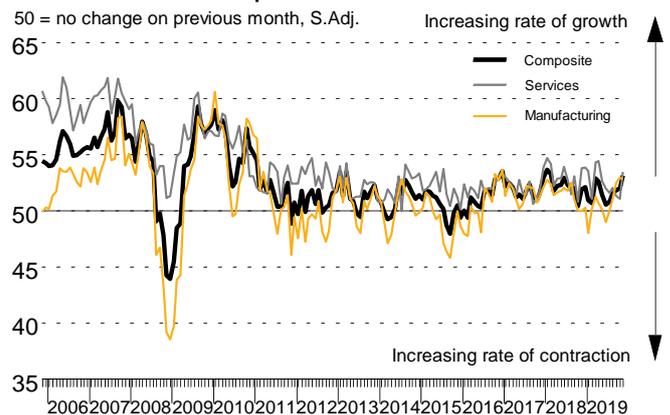
2) The measure of outstanding business fell back into contractionary territory after two straight months of expansion, suggesting a strengthening capability on the supply side in the services sector. The employment gauge fell marginally in November from the previous month, which marked the most modest expansion since July.

3) The gauge for prices charged by service providers rose marginally, but the reading for input costs edged down, indicating greater company profitability. In the meantime, the measure for business expectations picked up strongly, but was still lower than the long-term average, reflecting depressed business confidence.

“The Caixin China Composite Output Index rose to 53.2 in November from 52 in the previous month, the highest since February 2018. The employment gauge bounced back into positive territory, reflecting easing pressure on the labor market. The measures for new orders and new export orders remained at relatively high levels, reflecting a continuous improvement in demand. The gauge for input prices edged down, pointing to easing pressure on the costs of companies. But business confidence was still weak, with the measure for future output expectations down from October.

“China’s economy continued to recover in November, as domestic and foreign demand both improved. But business confidence remained subdued, reflecting the impact from uncertainties generated by the China-U.S. trade conflicts. That will restrain a recovery in economic growth. The trade dispute is the major reason behind the slowing economic growth this year, and will become a key factor affecting the stabilization and recovery of China’s economy next 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.

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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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