

Caixin China General Services PMI™

Chinese business activity expands at slower rate in July

Summary – Services and Composite PMI data

Business activity growth across China slowed at the start of the third quarter, according to the latest Caixin China Composite PMI™ data (which covers both manufacturing and services). This was shown by the Composite Output Index falling from 53.0 in June to 52.3 in July.

The slowdown in overall growth momentum was broad-based, with both manufacturers and service providers in China registering weaker increases in activity in the latest survey period. Notably, service sector output rose at the slowest rate for four months in July, as illustrated by the seasonally adjusted Caixin China General Services Business Activity Index falling from 53.9 in June to 52.8. Meanwhile, manufacturing production rose only modestly.

Growth in new orders also softened across both monitored sectors in July, most notably across the service sector. Furthermore, the latest increase in new business placed with service providers was the weakest recorded for just over two-and-a-half years and modest. According to panellists, relatively subdued market conditions had contributed to the slower rise in new orders. At the same time, new business received by manufacturers rose at the softest pace since April. Consequently, new work at the composite level increased at the slowest rate for just over a year.

Chinese services companies continued to add to their payroll numbers during July. However, in line with the trend for business activity, the rate of job creation softened since June and was only slight. Employment across China's manufacturing sector remained on a downward trend at the start of the second half of 2018, though the rate of job shedding eased slightly from June. At the composite level, workforce numbers fell for the second month in a row, albeit marginally.

Higher staffing levels and increased efforts to clear unfinished workloads led to a further decline in outstanding business at services companies in July. Though slight, the rate of backlog depletion was the quickest recorded since the start of 2016. In contrast, capacity pressures persisted at goods producers, as highlighted by a further rise in the level of work-in-hand at manufacturing companies. Overall, outstanding business rose at the weakest rate since September 2017.

Average input costs continued to rise across both the manufacturing and service sectors in July, with the former noting the sharper rate of growth. The increase in input costs faced by goods producers remained steep, despite the rate of inflation easing since June. Meanwhile, services companies registered a strong rise in operating expenses that was generally linked to higher fuel and raw material prices, alongside greater salary costs.

As was the case for input costs, output charges rose across both monitored sectors at the start of the third quarter. That said, manufacturers raised their selling prices at the slowest pace for three months, while services companies increased their charges at the joint-weakest rate since September 2017. Overall, output prices rose at the softest pace since the start of the year.

July survey data signalled a marked deterioration in optimism among services companies, with the level of positive sentiment edging down to the joint-lowest on record. Confidence at manufacturers was meanwhile little-changed from June, remaining historically subdued. At the composite level, optimism towards the year-ahead outlook for business activity fell to the lowest level in 32 months.

Key points

- Activity rises at weaker rates across both manufacturers and service providers
- Service sector new orders expand at weakest rate for over two-and-a-half years
- Overall business confidence falls to lowest level since November 2015

Comment

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

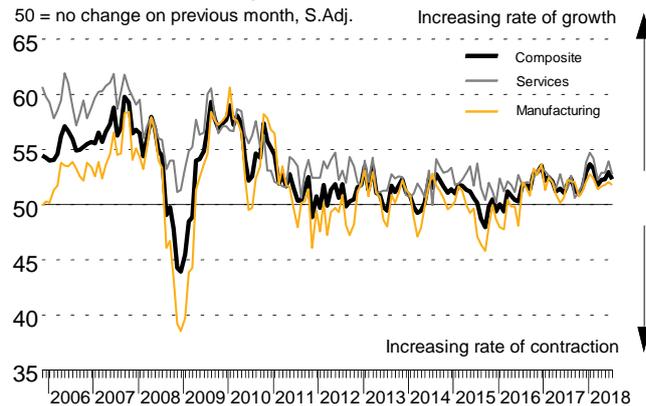
"The Caixin China General Services Business Activity Index dropped to 52.8 in July from June. The sub-index of new business remained in expansionary territory, but fell significantly to its lowest level since December 2015 — a clear sign that demand for services had worsened. This change led to slower increases in employment and prices charged. The sub-index of input costs expanded at a slower pace. The sub-index of business expectations, a gauge of companies' confidence for the next 12 months, remained above 50, but

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slumped to its lowest level since October 2015, indicating that their confidence had been shaken.

"The Caixin China Composite Output Index, which covers both manufacturers and service providers, fell to 52.3 in July, pointing to a weaker expansion of China's economy. The sub-index for prices charged fell more than the one for input costs, although both remained in expansionary territory. The situation pointed to rising cost pressures. The sub-index of expectations regarding future output remained above 50, but the reading had not been this low since November 2015, implying that confidence of companies, particularly service providers, could use a boost. The employment sub-index slipped further, and remained in contractionary territory for the second consecutive month. In July, the State Council, China's cabinet, said the country will adopt a more proactive policy to support the economy in response to uncertainty abroad. The risk of an economic downturn has diminished."

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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