

# Caixin China General Services PMI™

Business activity growth slips to five-month low in August

## Summary – Services and Composite PMI data

The latest Caixin China Composite PMI™ data (which covers both manufacturing and services) indicated that business activity growth across China weakened for the second month in a row in August. Notably, the Composite Output Index fell from 52.3 in July to a five-month low of 52.0, to signal only a modest rate of expansion.

The decline in the headline index was driven by slower growth of services activity during August. Furthermore, business activity at services companies increased at the weakest pace since October 2017. This was highlighted by the seasonally adjusted Caixin China General Services Business Activity Index falling for the second month in a row, from 52.8 in July to 51.5 in August. In contrast, manufacturing production rose at the quickest rate since January, though growth remained moderate overall.

In line with the trend for activity, services companies signalled a further upturn in total new business during August. That said, the rate of expansion remained modest, despite improving from July's 31-month low. At the same time, manufacturers noted only a marginal rise in new order volumes, with the pace of growth the weakest seen since May 2017. Reports from panellists indicated that relatively subdued demand conditions weighed on sales in the latest survey period. As a result, new orders at the composite level expanded at the slowest rate in 26 months.

Job creation across the service sector continued to contrast with further job shedding at manufacturers in August. The latest increase in workforce numbers at services firms extended the current period of expansion to two years, though the rate of payroll growth remained moderate overall. Meanwhile, goods producers lowered their staffing levels at the quickest rate for just over a year, often linked by respondents to company restructuring and cost-cutting initiatives. Consequently, composite employment fell for the third successive month, though only slightly.

Following a three-month sequence of reduction, backlogs of work were little-changed at service providers in August. Unfinished workloads meanwhile rose for the thirtieth month in a row at manufacturing firms, though the rate of accumulation was the softest seen since February. Nonetheless, the increase at goods producers led composite outstanding business to rise again, albeit marginally.

Stronger rises in input costs were seen across both the manufacturing and service sectors in August. The steepest rate of inflation was once again registered in manufacturing amid widespread reports of greater raw material costs. Services companies signalled a solid increase in operating expenses that was the quickest seen for six months. A number of service providers commented on higher prices for fuel and raw materials, as well as greater staffing costs.

Prices charged by Chinese companies also rose further in the latest survey period. Factory gate prices increased modestly overall, despite the rate of growth quickening from July. Meanwhile, the pace of charge inflation across the service sector was marginal and similar to that seen in the previous month. As a result, composite output charges rose for the fifteenth month running, albeit modestly.

Although overall sentiment towards the 12-month business outlook improved slightly from July's recent low, confidence remained relatively subdued in the context of historical data. Notably, the level of optimism at services companies remained below the long-run series average, while sentiment at goods producers held close to June's six-month low.

## Key points

- Services activity growth edges down to ten-month low, while manufacturing output increases at faster pace
- Composite new work expands at weakest pace for over two years
- Steeper rises in input costs across both the manufacturing and service sectors

## 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 51.5 in August, marking the lowest reading since October and weakening from 52.8 in July.*

*"The new business sub-index improved only slightly last month after a big decline in July, suggesting demand for services remained sluggish. The services sector remained a main job creator last month, with its employment expanding at a*

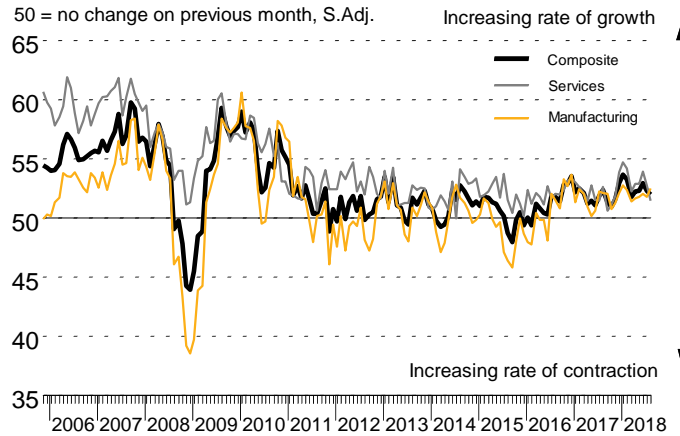
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marginally faster rate in August than in the previous month. "Prices charged increased at a slightly stronger rate and was under pressure to rise further. But the expansion was mainly driven by higher costs as input prices rose at an even more rapid pace. Services providers' confidence recovered to some extent as the business expectations sub-index improved in August after a steep fall in July.

"The Caixin China Composite Output Index, which covers both the manufacturing and services sectors, declined to 52.0 in August, indicating that economic growth remained on a downward trajectory. Inflationary pressures were pronounced as increases in both input prices and output prices accelerated. The future output sub-index went up after falling in August, which was likely boosted by the fine-tuning of macro policies. The employment sub-index was unchanged from July's reading and remained in contraction territory.

"August's PMI readings indicated that the effects of expansionary credit policy and active fiscal policy are yet to kick in. Signs of stagnation emerged as upward pressure on prices remained even though demand weakened at a faster rate."

## 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](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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