

Caixin China General Services PMI™

Chinese business activity continues to rise modestly in May

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) indicated that growth of Chinese business activity remained modest in May. The Composite Output Index was unchanged from April's reading of 52.3, to signal a steady and moderate pace of expansion. However, growth remained slower than that recorded at the start of 2018.

Latest data signalled that the upturn in activity was broad-based, with both manufacturers and services companies noting increases in output during May. Manufacturing production rose at a fractionally quicker pace than in April, albeit one that was still modest overall. Meanwhile, the rate of services activity growth was unchanged from the previous month, with the seasonally adjusted Caixin China General Services Business Activity Index holding steady at 52.9. However, rates of expansion remained subdued in both sectors compared to those seen earlier in the year.

The amount of new business placed with Chinese services companies rose further in May. According to panellists, firmer client demand and new product offerings helped to boost sales. That said, the rate of growth softened since April and was modest overall. In the manufacturing sector, new order books increased at a slightly quicker, though still moderate, pace in May.

On the employment front, trends diverged. Service providers noted a sustained rise in staff numbers, while payrolls were cut again at goods producers. Though modest, the rate of job creation at services companies was the quickest recorded for four months, and offset a slightly faster drop in workforce numbers at manufacturers. Employment at the composite level was therefore unchanged for the second month in a row.

After rising in the prior two months, backlogs of work declined at services companies midway through the second quarter. Some firms linked the reduction to higher staff numbers and greater efforts to clear workloads. That said, the rate of depletion was only marginal. At the same time, manufacturing firms signalled increased amounts of unfinished work for the twenty-seventh month running, though the rate of accumulation moderated since April. At the composite level, outstanding business rose at a marginal pace that was the least marked for three months.

May survey data indicated that rates of input price inflation picked up across both the manufacturing and service sectors. However, the upturn in service sector costs remained moderate overall. Meanwhile, the increase in cost burdens faced by goods producers was the strongest seen since February. As a result, composite input prices rose at a solid pace that was slightly stronger than that seen in April.

Reflective of the trend for input costs, companies continued to raise their prices charged in May. However, competitive pressures reportedly restricted the overall pricing power of service providers, with their charges increasing at the slowest rate for eight months. Concurrently, factory gate prices rose at a solid and accelerated pace that was the quickest recorded since last December. The latter contributed to the quickest upturn in composite output charges in 2018 so far.

Finally, Chinese firms remained optimistic that output will increase over the next year in May. Notably, levels of positive sentiment edged up across both monitored sectors compared to the previous month.

Key points

- Growth of services activity remains stronger than factory production
- Hiring at services companies offsets further job cuts at goods producers
- Input costs rise at slightly quicker pace

Comment

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

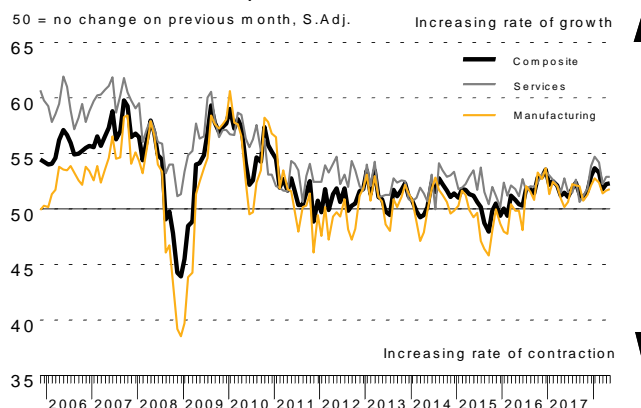
"The Caixin China General Services Business Activity Index stood at 52.9 in May, unchanged from the previous month's reading. The employment index continued to rise, while the new business index slipped slightly, indicating a positive change on the supply side and marginally weaker demand across the service sector. The changes led to a softer rise in prices charged, easing the upward pressure on service prices. However, input costs rose at a faster pace after slowing for three consecutive months, suggesting that the upward

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pressure on costs has not completely eased. The index of business expectations, a gauge of service providers' confidence towards the 12-month outlook for activity, improved noticeably, reaching its highest since June 2017, indicating that companies were confident about their prospects.

"The Caixin China Composite Output Index, which covers both manufacturers and service providers, stood at 52.3 in May, the same as April's reading, implying a stable macroeconomic trend. The indices of input costs and output charges both rose, showing that price growth remains supported. The index of expectations regarding future output rose to a relatively high level, suggesting optimism across both the manufacturing and service sectors. However, the impact of the recent credit contraction on small businesses is worthy of attention."

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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