

Caixin China General Services PMI™

Chinese business activity expands at weakest pace for 16 months

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) pointed to only a marginal increase in Chinese business activity at the start of the fourth quarter. At 51.0 in October, the Composite Output Index fell from 51.4 in September to signal the weakest pace of expansion since June 2016.

The softer increase in overall output was largely driven by a further slowdown in manufacturing production growth. Output at Chinese goods producers rose at only a marginal pace that was the weakest since June. Meanwhile, growth in Chinese services activity picked up from September's 21-month low, but was modest overall and remained weaker than the historical average. This was highlighted by the seasonally adjusted Caixin China General Services Business Activity Index rising from 50.6 to 51.2 in October.

New business increased across both the manufacturing and service sectors during October. Growth in new work picked up slightly at manufacturers, helped in part by a stronger upturn in export sales, but remained moderate overall. Services companies meanwhile registered a modest increase in new order books that was similar to that recorded in September.

Employment at the composite level was little-changed for the third month running in October, as further job shedding at manufacturers continued to offset hiring at services companies. Payrolls numbers at manufacturers declined at a modest pace, with a number of companies linking lower employment to company down-sizing policies. Meanwhile job creation at service providers remained marginal amid reports that firms hired additional workers in line with business requirements.

Sustained growth in new work and limited capacity led to a further build-up in outstanding business at manufacturing companies in October. Notably, the rate of accumulation was the joint-strongest since March 2011 (on par with July 2016). In contrast, services companies signalled a marginal drop in the level of work-in-hand (but not yet completed) for the second month in a row. At the composite level, unfinished business increased at a modest pace that was faster than in September.

Average input costs rose in both the manufacturing and service sectors at the start of the fourth quarter, albeit to varying degrees. Manufacturers registered a further sharp increase in cost burdens that was among the fastest seen since early-2011. According to panellists, greater raw material prices and stock shortages had led suppliers to hike prices in October. Services companies meanwhile noted only a moderate increase in input prices, despite the rate of inflation strengthening to a four-month high. At the composite level, the rate of input cost inflation was unchanged from September's eight-month record.

Manufacturing companies raised their prices charged again in October. Though solid, the rate of inflation was weaker than September's nine-month high. Service providers meanwhile raised their prices at a pace that, though modest, was the quickest seen since August 2015. Output charges at the composite level rose for the fifth successive month and at a moderate pace.

Optimism towards the 12-month business outlook weakened to a three-month low across the manufacturing sector, but improved slightly at services companies. Nonetheless, the degree of sentiment at the composite level remained relatively subdued, and was the lowest seen since July.

Key points

- Services activity expands modestly, while manufacturing output rises only slightly
- Employment levels remain relatively stagnant
- Manufacturers continue to register sharper increase in cost burdens than service providers

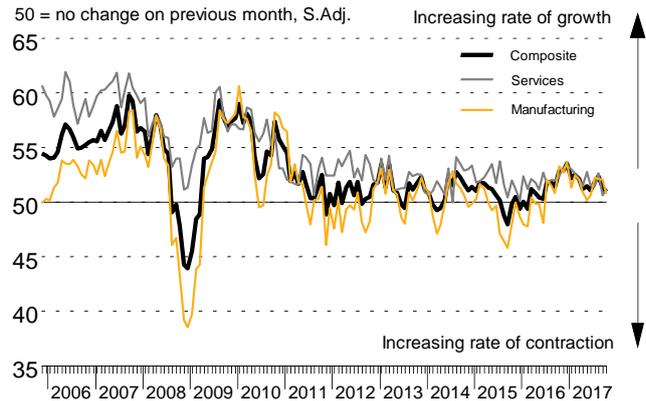
Comment

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 rose 0.6 points from the previous month to 51.2 in October. The sub-index of new business declined for the second month in a row, while the sub-indices of input prices and prices charged continued to go up. The Caixin China Composite Output Index, mainly dragged down by slower growth in output in the manufacturing sector, fell 0.4 points from September to 51.0 in October, the lowest level since June 2016. The Caixin

PMIs for October showed that the economy had a relatively weak start to the fourth quarter. However, monetary policy is unlikely to be loosened unless major downside risks emerge.”

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.

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