

Caixin China General Services PMI™

Service sector activity growth weakens to three-month low in May

Summary – Services and Composite PMI data

Caixin China Composite PMI™ data (which covers both manufacturing and services) pointed to a further increase in total Chinese business activity during May. However, the Composite Output Index posted 50.5, down from 50.8 in April, to signal the slowest rate of expansion in the current three-month sequence of growth.

May survey data indicated that overall Chinese business activity growth weakened for the second month in a row, as services activity expanded at a slower rate and manufacturers reported a fractional fall in production for the second consecutive month. Furthermore, it was the weakest increase in service sector business activity since February, with the Caixin China General Services Business Activity Index registering 51.2 in May, down from 51.8 in the previous month.

Reflective of the trend for service sector business activity, new business placed at service providers also rose at a slower pace in May. Furthermore, the rate of increase was modest and remained slower than the historical average. Some monitored firms commented that new product launches had helped to lift sales in the latest survey period. In contrast, total new orders at goods producers declined for the first time in three months during May, albeit only slightly. As a result, composite new business rose marginally in May, with the latest increase the slowest since February.

Service sector employment rose for the second month running in May, though the rate of job creation remained marginal overall. Some companies mentioned that restructuring plans had acted as a brake on staff hiring. Meanwhile, further steep job cuts were registered across the manufacturing sector in the latest survey period. As a result, employment at the composite level fell again in May, and at the same modest pace as recorded in April.

Volumes of unfinished work at Chinese services companies rose for the second successive month in May, albeit at a fractional pace. The level of work-in-hand (but not yet completed) also rose marginally across manufacturing firms in the latest survey period.

Cost pressures eased across both the manufacturing and service sectors in May. Input price inflation weakened to only a modest pace at service providers, with the rate of increase remaining slower than the series average. Growth in manufacturing cost burdens also slowed in May, with the sector also recording a modest rise in input prices overall.

May data indicated that both monitored sectors raised their output charges, with a number of companies increasing their prices due to higher cost burdens. However, services companies increased their selling prices at a marginal rate that was identical to that seen in April. Charge inflation meanwhile slowed across the manufacturing sector and was modest overall.

Service sector optimism towards the 12-month business outlook dipped to its lowest level in 2016 so far in May. A number of companies forecast that improving client demand and planned company expansions will support higher business activity over the next year, but there were reports that an uncertain economic outlook weighed on the overall level of business confidence.

Key points

- Services activity growth slows to three-month low, as manufacturing output declines fractionally
- Job creation slows to marginal pace at service providers, as manufacturing employment falls further
- Cost pressures ease across both sectors

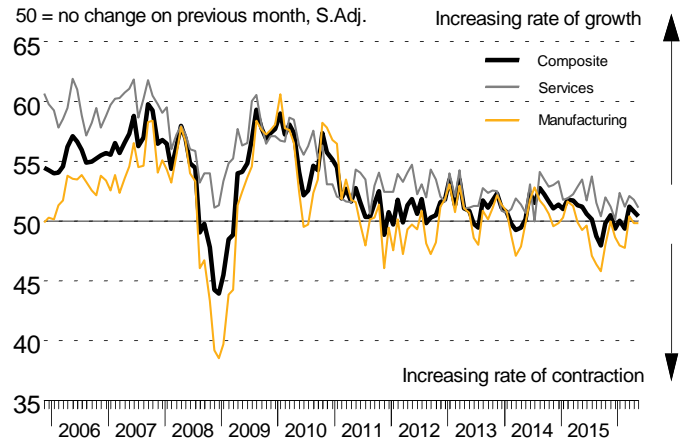
Comment

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

“The headline Caixin China General Services PMI for May came in at 51.2, down 0.6 from the reading for April, marking the second consecutive monthly decline. All of the index categories, with the exception of output prices, which remained stable, showed signs of deterioration. The Caixin China Composite Output Index for May was 50.5, down 0.3 from April’s reading but still above the neutral 50-point level. However, it also marked the second consecutive monthly decline, underscoring worsening conditions in both the manufacturing and services sectors. Underlying structural changes are still going on, with the manufacturing sector shrinking and services expanding. The government needs to

continue to push forward stabilizing measures to help the economy recover. It should also relax the control and regulation of the services sector to enable it to realize its growth potential and to facilitate the transformation and healthy development of the economy.”

Caixin China Output PMI



Sources: 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 Markit. Please contact economics@markit.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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About PMI:

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