

Caixin China General Services PMI™

Chinese business activity expands at slowest rate for a year

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) pointed to a marginal increase in total Chinese business activity at the end of the second quarter. At 51.1 in June, the Composite Output Index fell from 51.5 in May to signal the slowest rate of expansion in a year.

Latest data indicated that the slowdown in overall growth was driven by a weaker performance of the service sector. The seasonally adjusted Caixin China General Services Business Activity Index posted 51.6, down from a four-month high of 52.8 in May, to signal the second-slowest increase in activity for 13 months (after April 2017). At the same time, manufacturing production growth picked up slightly since May, but remained marginal overall.

Slower growth in services activity coincided with a softer increase in new work in June. Services companies noted the weakest increase in new orders for just over a year, with a number of firms mentioning that subdued market conditions had weighed on client spending. Meanwhile, new business rose at a slightly quicker (albeit still marginal) pace across the manufacturing sector. At the composite level, new work increased at a modest pace that was the slowest recorded in nine months.

Services companies signalled a further easing in the rate of employment growth at the end of the second quarter. Notably, the latest increase in staff numbers was the weakest seen in the current ten-month sequence. June data meanwhile signalled a further fall in workforce numbers at Chinese goods producers. The rate of job shedding was the least marked for three months and modest overall. Nonetheless, the fall in manufacturing staff numbers more than offset job creation at services firms to push total employment lower for the third successive month.

The level of outstanding business at service providers increased for the second month running in June. That said, the rate of accumulation was little-changed from May and marginal. The level of work-in-hand also increased at manufacturing companies, though the rate of expansion slowed since the previous month. Overall, outstanding workloads increased for the sixteenth consecutive month at the composite level, albeit only slightly.

Cost pressures eased across China's service sector in June, with companies noting the slowest rise in average input prices since October last year. Higher costs were generally linked by panellists to greater prices for raw materials. Manufacturing companies also saw a moderate upturn in cost burdens during June after a slight decline in the previous month. At the composite level, input prices increased at a modest pace that was slightly faster than May's 11-month low.

June data signalled only a marginal increase in output charges set by Chinese service providers. Furthermore, the rate of inflation was the softest seen for four months, with some companies noting that greater market competition had weighed on their ability to raise prices. Factory gate charges also rose only slightly at the end of the second quarter, following a marginal decline in May. Composite output charges therefore rose marginally in June, after broadly stagnating in the previous month.

Although activity and new orders expanded at slower rates, services companies remained optimistic towards the one-year business outlook in June. Furthermore, the degree of confidence edged up to a five-month high, buoyed by forecasts of improving demand and new projects. In contrast, positive sentiment weakened slightly in the manufacturing sector to its lowest since the end of last year. Stronger confidence at services companies nonetheless led overall optimism to edge up to its highest for three months.

Key points

- Slower expansion in services activity while manufacturing output rises only slightly
- Total new orders increase at slowest pace for nine months
- Manufacturing job cuts offset marginal rise in service sector staff

Comment

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

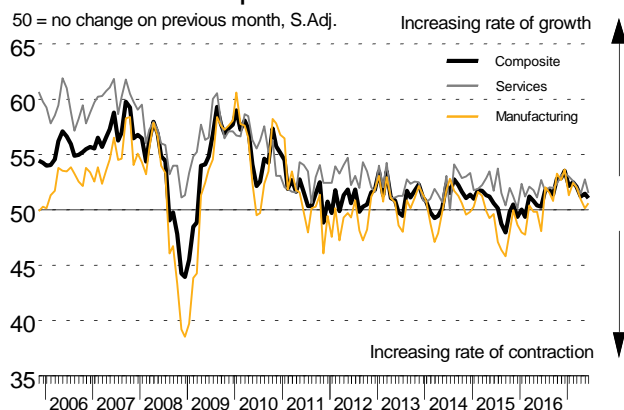
"The Caixin China General Services Business Activity Index slipped to 51.6 in June from 52.8 in the previous month, hitting the second-lowest level seen for just over a year following a brief rebound in May."

"The new business sub-index fell to the weakest level since May 2016, while the sub-indices for input prices and prices charged both declined, but still remained in expansion territory.

"The Caixin China Composite Output Index dropped to 51.1 in June, down 0.4 points from May, showing the lowest reading in one year.

"Even though the impact of slowing expansion in China's services sector was cushioned by a slight rebound in manufacturing activity, the downward trend in the economy remains entrenched."

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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