

Caixin China General Services PMI™

Service sector business activity growth hits 11-month high

Summary – Services and Composite PMI data

Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled a further increase in Chinese business activity during July. That said, the Caixin Composite Output Index posted only fractionally above the neutral 50.0 mark at 50.2, down from 50.6 in June, and pointed to the weakest rate of expansion in 14 months.

The slower rate of overall output expansion was predominantly driven by the manufacturing sector, which registered the quickest reduction of output since November 2011. This contrasted with a further increase in service sector business activity, where the rate of growth accelerated to an 11-month high. This was highlighted by the Caixin China General Services Business Activity Index posting at 53.8 in July, up from June's recent low of 51.8.

The stronger rise in service sector activity was supported by a further increase in new business volumes in July. Furthermore, the rate of new order growth accelerated to a solid pace that was the second-fastest in eight months. Anecdotal evidence suggested that stronger underlying client demand and new customer wins led to increased new work at service providers. In contrast, new work placed at manufacturers declined solidly in July, after a slight increase in June. As a result, new business at the composite level rose at a fractional pace that was the slowest in the current 15-month sequence of expansion.

Employment at service sector companies continued to increase in July, with a number of surveyed companies attributing growth to planned company expansions. Moreover, the rate of job creation picked up slightly since June. However, staff numbers continued to decline at manufacturing firms, albeit at a slower pace than in the previous month. At the composite level, employment declined for the second month in a row, though only marginally.

Higher workforce numbers helped service providers to reduce their level of unfinished business for the sixth successive month in July, and at a modest rate. Meanwhile, reduced production was linked to a slight increase in the level of work-in-hand at manufacturing companies. Overall, composite outstanding business fell for the fourth successive month, albeit slightly.

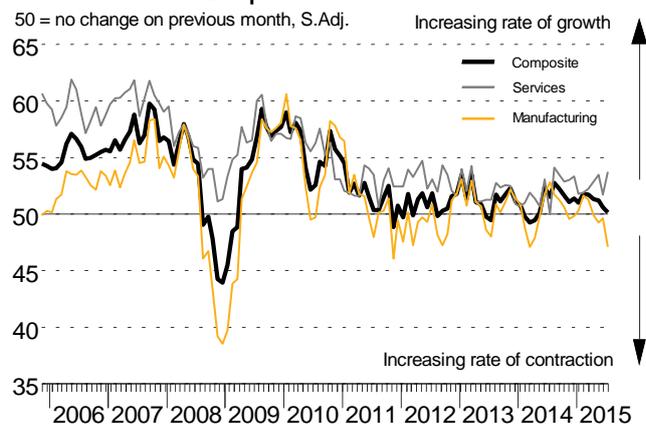
Average input costs continued to rise at service providers in July. Although the rate of input price inflation picked up slightly since June, the rate of increase remained slower than the series average. However, a sharp decline in cost burdens faced by manufacturers led to a modest reduction in input prices at the composite level in July.

Service sector companies increased their output charges in July, following a slight reduction in June. Though modest, it was the quickest rate of inflation seen since September 2013. Manufacturers meanwhile discounted their tariffs, and at the sharpest rate in six months.

Key points

- Stronger expansion of service sector business activity contrasts with stronger contraction of manufacturing output
- Staff numbers continue to rise at service providers, while manufacturing employment declines
- Deflationary pressures persist

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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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