

Caixin China General Services PMI™

Composite output growth edges up to six-month high in October

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) showed a further modest increase in overall business activity during October. At 52.0, the Composite Output Index edged up from 51.9 in September, to post its best reading since April.

Data broken down by sector indicated that the stronger performance was driven by the manufacturing sector, as activity expanded at a slower pace at services companies. Furthermore, manufacturing output increased at the steepest pace since December 2016 in October. Meanwhile, service providers signalled only a marginal upturn in activity, with the seasonally adjusted Chinese Services Business Activity Index easing from 51.3 in September to 51.1 in October. This marked the slowest increase in services activity for eight months, with some firms citing relatively soft overall market conditions.

Manufacturers and services companies in China recorded a further increase in new work at the start of the fourth quarter. While the rate of new order growth at goods producers was the steepest seen since January 2013, the pace of expansion softened across the service sector. Notably, service providers saw a modest upturn in new business that was the least marked since February. Overall, the rate of composite new order growth was solid and unchanged from September's 19-month high.

October data pointed to a broad-based increase in new export work received by Chinese companies, with both manufacturers and services companies registering higher foreign demand. Though only marginal, it marked the first increase in new export orders for manufactured goods since May. Meanwhile, service providers recorded a stronger, but still modest, increase in new work from overseas. At the composite level, new export business rose modestly, to end a two-month sequence of decline.

After broadly stabilising in the previous two months, manufacturing employment fell during October. Though modest, the rate of job shedding was the quickest seen for just over a year. At the same time, services companies added to their payrolls at only a marginal rate, with growth slipping to a three-month low. Consequently, composite employment declined slightly after back-to-back monthly increases.

Outstanding orders continued to rise across both the manufacturing and services sectors in October. At manufacturing firms, backlogs of work expanded at the steepest rate since January 2018. Service providers meanwhile recorded an increase that, though only marginal, was the quickest seen since February 2017. As a result, unfinished workloads at the composite level accumulated at an accelerate pace that was the steepest recorded since March 2011.

Latest data showed that average input costs faced by Chinese firms continued to rise at the start of the fourth quarter. Services companies registered a solid increase in cost burdens, despite the rate of inflation softening since September. In contrast, manufacturers registered only a slight increase in input prices.

Although operating expenses rose solidly, prices charged by service providers increased only marginally during October. Factory gate prices meanwhile fell slightly amid reports of competitive market pressures. At the composite level, output charges rose marginally for the second month in a row.

Overall, the level of positive sentiment regarding the one-year business outlook improved at Chinese firms during October. The upturn was led by stronger optimism at manufacturers, where confidence hit a six-month high. Sentiment meanwhile slipped at services companies to the softest since July 2018. Notably, expectations remained historical subdued across both monitored sectors.

Key points

- Solid rate of manufacturing output growth contrasts with only marginal rise in services activity
- Composite employment falls for first time in three months
- Outstanding business at the composite level increases at the quickest rate since March 2011

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 dipped to 51.1 in October from 51.3 in the previous month, marking the slowest expansion in eight months amid subdued market conditions."

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1) Demand across the services sector grew at a reduced pace, with the gauge for new business falling to the lowest level since February. The measure for new export business picked up slightly.

2) While the job market expanded at a weaker clip, with the employment gauge falling from the previous month's recent high, the measure for outstanding business rose further into expansionary territory. This implied a mismatch between labor supply and demand.

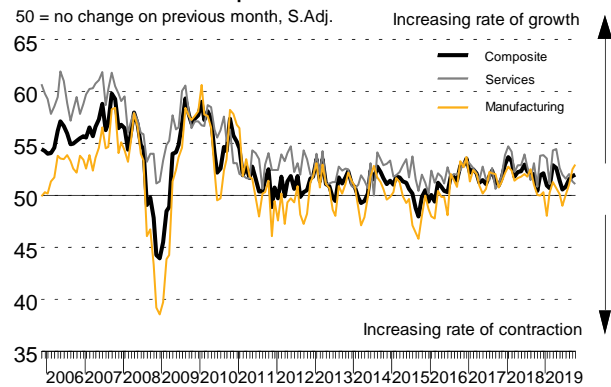
3) Both gauges for input costs and prices charged by service providers edged down, but they remained in positive territory, reflecting relatively high pressure on costs, including those of workers, raw materials and fuel.

4) The measure for business expectations dropped to the lowest point in 15 months, indicating depressed business confidence.

"The Caixin China Composite Output Index inched up to 52 in October from 51.9 in the month before, amid an improvement in manufacturing, but a softer service sector performance. The employment gauge dipped into contractionary territory, indicating renewed pressure on the labor market, which was likely due mainly to structural unemployment. The measure for backlogs of work climbed to the highest level since early 2011, highlighting bottlenecks in production capacity and inventories due to weak business confidence.

"China's economy continued to recover in general in October, thanks chiefly to the performance of the manufacturing sector. Domestic and foreign demand both improved. However, business confidence remained weak, constraining the release of production capacity. Structural unemployment and rising raw material costs remained issues. The foundation for economic growth to stabilize still needs to be consolidated."

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. For the purposes of this report, China is defined as mainland China, excluding Hong Kong SAR, Macao SAR and Taiwan.

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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