

Caixin China General Services PMI™

Chinese business activity growth remains subdued in July

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) indicated that business activity across China continued to expand at a marginal pace at the start of the third quarter. This was highlighted by the Composite Output Index posting 50.9 in July, up slightly from 50.6 in June.

The uptick in the headline index was helped by the stabilisation of manufacturing output following a decline in June. Meanwhile, business activity at services companies expanded at only a modest rate in July. This was shown by the seasonally adjusted Chinese Services Business Activity Index slipping from 52.0 in June to 51.6, which was the lowest index reading for five months.

Composite new orders expanded at a faster, albeit still modest, rate during July. The improvement was largely driven by a further solid increase in new business placed with service providers, despite the rate of expansion edging down from June. Services companies that registered higher new order intakes indicated that this was supported by new products and new clients. At the same time, there was a renewed upturn in new work received by manufacturing companies, albeit fractional.

On the exports front, new work from abroad rose slightly at the composite level for the second time in three months. This was driven by a solid rebound in export sales at services companies. Meanwhile, manufacturing firms registered broadly stable new export business following a marginal reduction in June.

Employment trends across China remained subdued at the start of the third quarter, with composite data showing a marginal reduction in headcounts for the third month running. The fall was centred on the manufacturing sector, which recorded the most marked decline in staffing levels since February. Meanwhile, job creation at services companies remained marginal in July, as softer business activity growth and efforts to contain costs weighed on hiring decisions.

July data pointed to a further marginal rise in unfinished workloads at Chinese companies. The increase was underpinned by a modest increase of backlogs at goods producers. In contrast, service providers registered another marginal drop in outstanding business, with some firms citing greater efforts to complete unfinished projects.

At the composite level, average input prices continued to increase at a modest pace during July. The rate of cost inflation recorded across the manufacturing sector softened since June and was only slight. At the same time, operating expenses at services companies rose at a solid pace, with the rate of inflation strengthening slightly since the previous month. Firms commonly linked higher costs to greater prices for materials, fuel and staff.

Composite data indicated that prices charged by Chinese businesses fell for the first time in six months in July, albeit only fractionally. The decline was driven by a renewed fall in factory gate charges. Though modest, it was the first time manufacturers had cut their prices since January. Services companies raised their charges only slightly in July, with some firms indicating that competitive pressures had restricted pricing power.

Business confidence regarding future output picked up in July, with the overall level of positive sentiment improving to a three-month high. Stronger optimism was seen across the manufacturing sector, having recovered from June's record low. Services companies remained more upbeat overall, however, despite the degree of positive sentiment being unchanged from June.

Key points

- Manufacturing sector stabilises, but service sector growth weakens further
- Total new work expands at a slightly faster pace
- Optimism regarding future output improves to three-month high

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 51.6 in July, falling from 52.0 in the previous month.

1) Demand for services remained solid. The gauge for new business edged down, although it remained in expansionary

territory. The gauge for new export business rebounded back into positive territory, signaling a recovery in overseas demand.

2) The employment gauge stayed in expansionary territory and edged up, indicating the services sector's strengthening capacity to absorb workers.

3) Both gauges for prices charged by service providers and input costs climbed further into positive territory. Prices remained stable.

4) The measure for business activity expectations stayed the same as the previous month, suggesting service providers' confidence regarding the outlook for their businesses was stabilizing.

"The Caixin China Composite Output Index inched up to 50.9 in July from 50.6 in the month before, chiefly thanks to an improvement in the manufacturing sector.

1) The gauge for new orders increased and the one for new export business returned to expansionary territory, suggesting firmer demand for products and services.

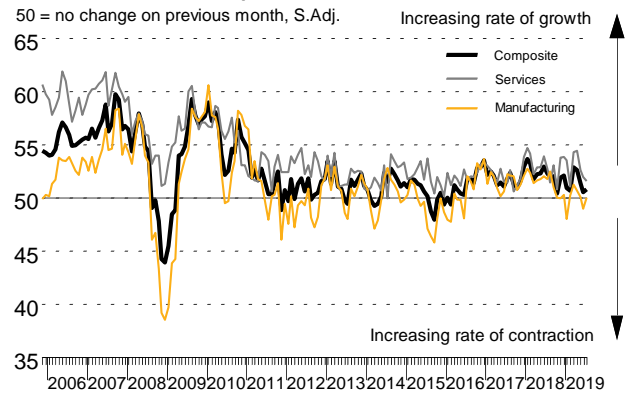
2) The measure for employment edged up, although it remained in contractionary territory. This indicates that lingering downward pressure on the job market didn't escalate.

3) The gauge for input costs edged down, but remained in positive territory, while that for output charges dipped into negative territory, pointing to downward pressure on the profitability of downstream companies.

4) The measure for future output expectations climbed further into positive territory, suggesting a recovery in business confidence.

"In general, China's economy showed signs of recovery in July, thanks to large-scale tax and fee cuts, as well as ongoing support from monetary policy and government-driven infrastructure investment. It remains to be seen if the economic recovery can continue amid trade frictions with the U.S. and rigid regulations on the financial sector and debt levels. The recovery in July suggests that China's economic slowdown is under control."

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 and www.caixinglobal.com.

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