

Caixin China General Services PMI™

Business activity growth improves to five-month high in December

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) showed a further rise in overall Chinese business activity during December. Furthermore, the rate of expansion picked up from November, with the Composite Output Index rising from 51.9 to a five-month high of 52.2.

The improved headline index reading was supported by higher activity levels across both the manufacturing and service sectors. Services companies registered a solid rate of activity growth, while manufacturing output expanded slightly after two months of stagnation. The solid upturn in services activity was shown by the seasonally adjusted Caixin China General Services Business Activity Index edging up from 53.8 in November to a six-month high of 53.9 at the end of 2018.

Despite the stronger rise in output, overall new business increased only slightly during December. Divergent trends were seen at the sector level, with new orders falling slightly at manufacturers, but rising modestly at services companies.

New work from abroad followed a similar pattern, with a further decline in export sales at manufacturers contrasting with a sustained rise at service providers. Notably, new work from abroad across the service sector expanded at the quickest pace for six months in December. Some panellists mentioned greater efforts to secure export orders.

On the employment front, staffing levels rose only slightly at services companies, while manufacturers continued to reduce their workforce numbers. The pace of job creation across the service sector was marginal, having weakened to a three-month low. Goods producers meanwhile registered a modest decline in employment that was similar to that seen in November. Consequently, staffing levels at the composite level continued to fall slightly during December.

Backlogs of work rose across both monitored sectors in December. Outstanding workloads continued to rise at a modest pace at goods producers. Though only slight, the increase in unfinished business at services providers was the first seen for four months. Overall, the level of work-in-hand (but not yet completed) rose for the thirty-fourth month running, albeit at a marginal pace.

A renewed fall in average input costs across the manufacturing sector contrasted with a further rise at service providers. Though modest, it was the first time that cost burdens had declined at goods producers since May 2017. In contrast, operating expenses continued to increase solidly across the service sector, with many firms linking the rise to higher raw material prices and salary costs. As a result, input prices measured across both sectors increased at the joint-weakest rate for two-and-a-half years.

In line with the trend for costs, average factory gate prices fell for the second month in a row during December. Though modest, the rate of discounting was the quickest seen since February 2016. Concurrently, services companies continued to increase their output charges only slightly at the end of 2018. At the composite level, selling prices fell for the first time since May 2017 (though only slightly).

The level of positive sentiment towards the 12-month business outlook improved slightly at manufacturers and service providers at the end of the year. The degree of optimism edged up to a three-month high at manufacturers, while services companies saw expectations improve from November's recent low. However, overall business confidence remained relatively subdued in the context of historical data, with a number of surveyed firms citing concerns over relatively soft market conditions.

Key points

- Solid rise in services activity; manufacturing output returns to growth
- Softer increase in total new work
- Renewed fall in composite output charges

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 rose to 53.9 in December after a big jump the previous month.

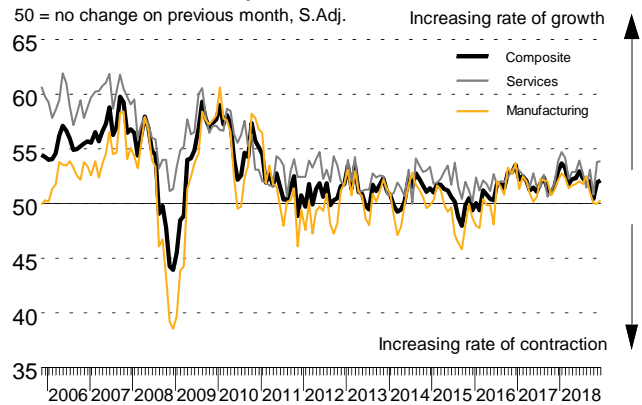
"Among the gauges included in the survey, the one for new business dipped slightly in December after a rebound the month before, suggesting steady demand across the services

sector. The employment measure stayed in positive territory but edged down further, indicating that the employment absorption capacity of the services industry weakened mildly. The gauges for prices charged by service providers and input costs both edged up. The measure for business expectations also rose, reflecting service providers' strengthening confidence in their prospects.

"The Caixin China Composite Output Index picked up marginally to 52.2 in December, reflecting easing downward pressure on China's economic growth.

"Although the index for new export business rose, the one for overall new orders dropped, reflecting weakening domestic demand. The employment gauge slipped further into negative territory, implying increasing challenges to stabilizing employment, which was the broader context of December's central government policies to increase jobs. The gauges for input costs and output charges continued to drop, pointing to easing inflationary pressures. The measure for future output, which reflects business confidence, edged up marginally, although it remained on a downtrend."

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.

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