

Caixin China General Services PMI™

Business activity growth remains strong in April

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) indicated that Chinese business activity continued to rise strongly during April. This was shown by the Composite Output Index posting above the neutral 50.0 value at 52.7, which was down only slightly from a nine-month high of 52.9 in March.

Data broken down by sector signalled that the increase in overall business activity was largely driven by services companies. Notably, the seasonally adjusted Chinese Services Business Activity Index edged up from 54.4 in March to 54.5 in April, to mark its second-highest level since May 2012 (after January 2018). Meanwhile, manufacturing firms registered only a marginal increase in production at the start of the second quarter.

The rise in services activity was supported by a further strong increase in new business across the sector. This was despite the rate of new order growth softening slightly since March. According to panellists, improved marketing strategies, new product offerings and firmer underlying market demand supported the latest increase in sales. The amount of new work received by manufacturing companies meanwhile increased only slightly. Consequently, composite new orders expanded at a modest rate that was softer than that seen in March.

The amount of new export work received by services companies rose at the sharpest pace since the series began in late-2014 in April. A number of firms commented on stronger demand across key markets and greater efforts to develop foreign client bases. In contrast, manufacturing export sales slipped back into decline, though the rate of reduction was only slight. At the composite level, new export orders fell marginally following an increase at the end of the first quarter.

Employment trends diverged by sector in April, with service providers adding to their payroll numbers while manufacturers signalled a decline. Though modest, the latest increase in service sector staffing levels was the quickest recorded for 10 months, with some firms linking growth to greater amounts of new business. Meanwhile, workforce numbers at manufacturers declined slightly, following the first increase for over five years in March. As a result, employment at the composite level rose at a marginal pace that was similar to that seen in March.

Services companies in China continued to signal a lack of pressure on operating capacities in April, as highlighted by a further decline in outstanding workloads. That said, the rate of backlog depletion was the slowest seen in the year to date. The amount of unfinished business at manufacturing companies meanwhile continued to increase, though the rate of accumulation was the weakest seen for three years. Overall, lower backlogs at services firms offset the rise at goods producers to leave outstanding work unchanged at the composite level.

Operating expenses continued to rise at service providers, with the rate of input price inflation the steepest recorded since September 2018. Manufacturing businesses registered only a marginal increase in purchasing costs during April. At the composite level, input costs rose at a modest pace that was the fastest seen for five months.

Latest data indicated that both manufacturing and services companies increased their charges at the start of the second quarter. That said, factory gate prices rose at only a fractional pace. Service providers meanwhile hiked their charges at a rate that, though marginal, was the quickest seen since June 2018, which some companies linked to firmer demand conditions.

Business confidence remained relatively subdued across China in April amid concerns over the strength of the global economy. At services companies, sentiment edged down to its joint-lowest in five months. Manufacturers meanwhile saw optimism improve slightly to an 11-month high but remain relatively soft overall.

Key points

- Service sector activity rises solidly, while manufacturing growth softens
- Composite employment increases, driven by service sector
- Confidence towards the year ahead remains subdued

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 inched up to 54.5 in April from the previous month’s recent high of 54.4. Among the gauges included in the survey:

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1) The gauge for new business dipped marginally from the past month's recent high, reflecting continued strong demand across the services sector.

2) The measure for employment rose to its highest since June, suggesting an acceleration in jobs growth.

3) Gauges for input costs and prices charged by services providers rebounded. Faster growth in input costs was negative for companies to improve profits.

4) The measure for business expectations fell despite staying in positive territory, reflecting services providers' weakening confidence in their future prospects.

"The Caixin China Composite Output Index edged down to 52.7 in April from 52.9 the month before, partly due to slower growth in the manufacturing sector.

1) The gauge for new orders edged down despite staying in expansionary territory, while the one for new export orders returned to contractionary territory, pointing to weakening demand at home and abroad.

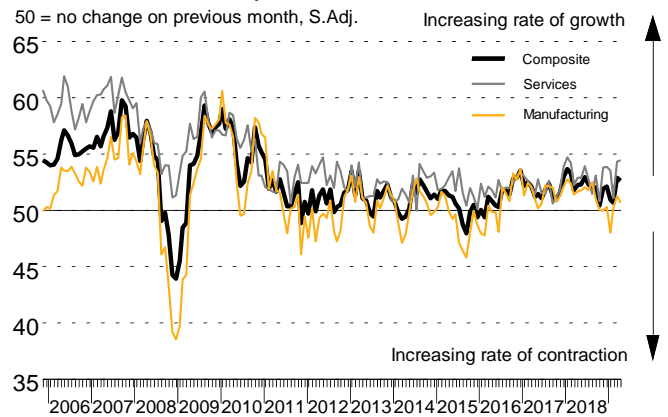
2) The employment gauge dipped, but remained in positive territory, suggesting pressure on the labor market was controllable.

3) Both gauges for output charges and input costs stayed in positive territory, with the former dipping and the latter rising, implying companies' subdued profitability.

4) The measure for future output, which reflects business confidence, edged down.

"In general, China's economy looked resilient in April, especially in the services sector. However, pressure on costs across the services sector remained relatively high, limiting companies' profit growth potential. Business confidence hasn't recovered. Market participants must remain patient to wait for the economy to stabilize. We expect that policymakers will slightly restrain countercyclical policies, and focus more on structural and systematic policies."

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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