

Caixin China General Services PMI™

Business activity growth softens in September, led by slowdown in service sector

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled a weaker expansion in total Chinese business activity at the end of the third quarter. Notably, the Composite Output Index fell from 52.4 in August to a three-month low of 51.4 in September.

The slowdown was driven by weaker increases in output at both manufacturing and services companies. A drop in the seasonally adjusted Caixin China General Services Business Activity Index from 52.7 to 50.6 in September pointed to only a marginal increase in services activity that was the slowest for 21 months. At the same time, growth in manufacturing production edged down to a three-month low.

Weaker expansions in activity coincided with a slowdown in new order growth across both monitored sectors. While manufacturers signalled the softest increase in new business for three months, service providers saw only a modest upturn in new order books. A number of companies mentioned that relatively subdued client demand had weighed on sales at the end of the third quarter. As a result, composite new work increased at the weakest pace since June.

In line with the trend for new orders, services companies increased their staffing levels at a slower rate in September. Furthermore, the latest expansion of payroll numbers was only marginal. At the same time, goods producers signalled a further decline in employment, though the rate of job shedding eased to a six-month low. Job creation across the service sector largely offset job cuts at manufacturers to leave overall employment little-changed for the second month in a row.

After a four-month sequence of accumulation, the level of outstanding work at Chinese services companies declined during September. That said, the rate of depletion was only slight. In contrast, backlogs of work continued to rise at manufacturers, though the rate of expansion was the weakest seen since April. At the composite level, the level of work-in-hand (but not yet completed) rose at the softest pace for a year-and-a-half.

Services companies signalled only a marginal increase in cost burdens at the end of the third quarter, despite the rate of inflation picking up for the second month in a row. This contrasted with a sharp and accelerated rise in manufacturers' input costs. Notably, goods producers saw the steepest rise in input prices since last December, with many firms linking the increase to greater raw material costs. Consequently, the rate of composite input price inflation quickened to an eight-month high.

Reflective of the trend for input costs, output charges set by services companies rose only slightly during September. This contrasted with a marginal drop in prices during August, however. Meanwhile, stronger cost pressures at manufacturers led factory gate charges to increase sharply as firms sought to protect their margins. Moreover, the rate of inflation was the quickest recorded for nine months. Selling prices at the composite level subsequently increased at the fastest pace since last December.

Slower growth in output and new business dampened overall business confidence in September, with both manufacturers and service providers expressing a weaker degree of optimism compared to the previous month.

Key points

- Services activity growth weakens to 21-month low, while manufacturing output rises modestly
- Total new work expands at weakest pace since June
- Cost pressures mount

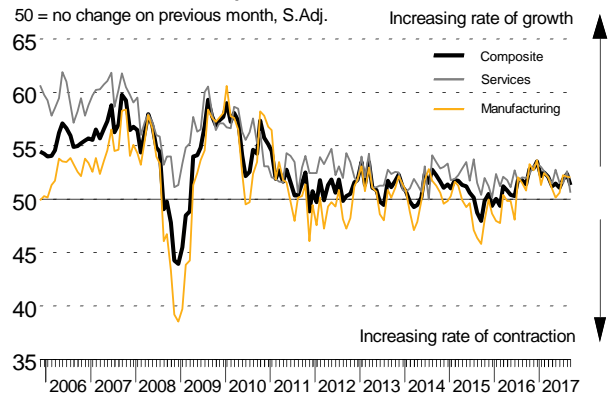
Comment

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 came in at 50.6 in September, the lowest since December 2015 and down 2.1 points from the previous month. Although new business rose at a slower rate last month than in August, input costs and prices charged both increased. The Caixin China Composite Output Index was 51.4 last month, the weakest since June and down 1.0 point from August. The Chinese economy generally held up well in the third quarter. However, the expansion in both manufacturing and services

cooled in September, suggesting downward pressure on economic growth may re-emerge in the fourth quarter.”

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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