

Caixin China General Services PMI™

Business activity growth picks up in July

Summary – Services and Composite PMI data

The Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled an improvement in the rate of Chinese business activity growth at the start of the third quarter. This was shown by the Composite Output Index rising from June's recent low of 51.1 to a four-month high of 51.9 in July.

The stronger increase in total business activity was supported by a sustained upturn in manufacturing production, which in turn increased at the quickest rate in five months in July. In contrast, service sector activity expanded at a modest pace that was the joint-weakest since May 2016 (on par with April 2017). This was shown by the seasonally adjusted Caixin China General Services Business Activity Index posting 51.5, down fractionally from 51.6 in June.

New business also expanded at a weaker pace across the service sector in July. Furthermore, the rate of growth edged down to the least marked for 16 months, with some panellists linking relatively subdued sales to lower client numbers. In line with the trend for output, new work placed at manufacturers increased at a quicker pace at the start of the third quarter. This offset the slowdown in new order growth at services companies and led composite new business to rise at the quickest pace in four months.

Employment trends continued to diverge across both monitored sectors in July. Services companies added to their payroll numbers for the eleventh month running, while manufacturing staffing levels continued to decline. That said, the rate of job creation at services companies held close to June's ten-month low and remained marginal. Meanwhile, workforce numbers at goods producers declined at the fastest pace since September last year. As a result, total employment fell for the four successive month, albeit marginally.

Chinese service providers signalled a third successive monthly rise in outstanding business during July. However, the rate of accumulation was similar to those seen in May and June and only slight. Manufacturers also noted higher amounts of work-in-hand (but not yet completed), with the rate of expansion little-changed from the previous month and moderate. Overall, backlogs of work increased modestly at the composite level at the start of the third quarter.

Average input costs continued to increase across China's service sector in July, though the rate of inflation weakened since June. Furthermore, the rate of inflation was the weakest seen for nearly a year and only slight. In contrast, the rate of cost inflation picked up to a solid pace across the manufacturing sector amid reports of higher raw material prices. Consequently, composite input prices rose at the strongest pace for three months in July.

Latest survey data signalled a further marginal increase in prices charged by Chinese services companies at the start of the third quarter. Manufacturing firms also raised their selling prices, and at a quicker pace than in June. Firms across both monitored sectors commented on increasing their output charges to reflect higher input costs. At the composite level, prices charged increased at a modest pace that was the fastest since March.

Confidence towards the one-year business outlook moderated across both the manufacturing and service sectors during July. Furthermore, the level of positive sentiment dipped to an 11-month low at goods producers, while service providers expressed the weakest level of optimism since last November.

Key points

- Stronger manufacturing output growth contrasts with further slowdown in services activity
- Composite new business expands at quickest pace for four months
- Total employment continues to decline, led by job cuts at manufacturers

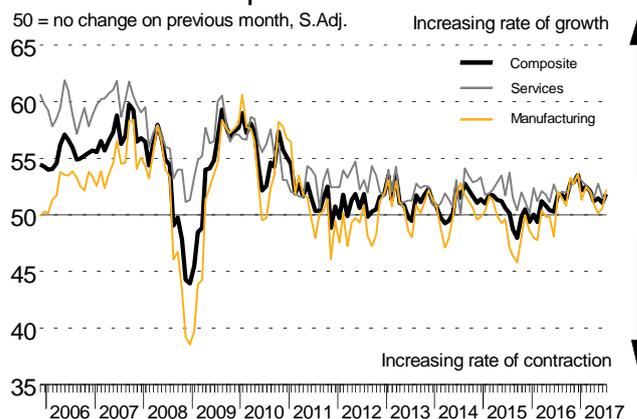
Comment

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 fell 0.1 point from the previous month to 51.5 in July, on par with April's reading that marked the weakest pace of expansion since May 2016. The index of new business edged down and the input costs index fell to its lowest level for nearly a year, while prices charged rose marginally. The Composite Output Index came in at 51.9, up 0.8 points from a month ago and the

highest figure since March. China's economic performance in July was stronger than expected, mainly due to sustained recovery in the manufacturing sector. However, downward pressure on the economy likely remains as the index gauging companies' confidence towards the 12-month business outlook dropped in both the manufacturing and services industries."

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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