

Caixin China General Services PMI™

Chinese business activity expands at weakest rate for 28 months

Summary – Services and Composite PMI data

The latest Caixin China Composite PMI™ data (which covers both manufacturing and services) signalled only a marginal increase in overall Chinese business activity at the start of the fourth quarter of 2018. Furthermore, the Composite Output Index fell from 52.1 in September to a 28-month low of 50.5.

The slowdown was broad-based by sector, with both services and manufacturing noting weaker performances compared to the previous month. Notably, manufacturing production stagnated, following increases in each of the preceding 27 months. Service sector activity meanwhile rose only marginally, with the seasonally adjusted Caixin China General Services Business Activity Index falling from 53.1 in September to a 13-month low of 50.8.

The softer increase in services activity coincided with the first stagnation of new business for nearly ten years in October. A number of service providers commented on relatively subdued demand conditions at the start of the fourth quarter. At the same time, new orders placed with goods producers rose only slightly, following broadly no change in the previous month. As a result, composite new work increased at a marginal pace that was the weakest in 32 months.

Despite the softer expansion in activity, staffing levels increased at services companies during October. Though marginal, the upturn contrasted with a slight reduction in the preceding month. Service providers that hired additional staff generally commented on efforts to boost operational capacity. Manufacturers meanwhile signalled a sustained reduction in employment during October. Workforce numbers in the goods producing sector have now fallen in each month for the past five years, though the latest reduction was moderate overall. At the composite level, staffing levels were broadly unchanged in October.

The amount of unfinished work at services firms fell for the second month running in October, with some companies reporting greater efforts to clear backlogs. That said, the rate of depletion remained marginal overall. As has been the case since March 2016, outstanding workloads at manufacturers rose at the start of the fourth quarter. The rate of accumulation was moderate, with some firms linking higher backlogs to insufficient production and lower staff numbers. Measured across both sectors, outstanding work rose slightly.

Services companies registered a slower, but still solid, rise in operating expenses during October. According to panellists, higher fuel and staff costs underpinned the latest increase input prices. Average cost burdens faced by manufacturers meanwhile rose at a sharp and accelerated rate in October. Overall, input prices at the composite level rose at a solid pace that was unchanged from September.

After broadly stagnating in September, prices charged by services companies rose slightly during October. Some monitored firms mentioned raising their prices to reflect higher input costs. Factory gate prices also increased in the latest survey period, albeit at a modest rate that was little-changed from the previous month. As a result, output charges rose modestly when measured across both sectors.

Although Chinese companies remained upbeat towards the 12-month business outlook in October, the level of positive sentiment fell across both manufacturers and service providers. At goods producers, optimism descended to an 11-month low, while service providers signalled the weakest level of confidence since July. Concerns over subdued demand conditions and the impact of the ongoing China-US trade dispute were key factors weighing on sentiment at the start of the fourth quarter.

Key points

- Services activity growth weakens to 13-month low, while manufacturing production is broadly unchanged
- Total new orders edge closer to stagnation
- Increase in service sector staff numbers largely offsets fall in manufacturing employment

Comment

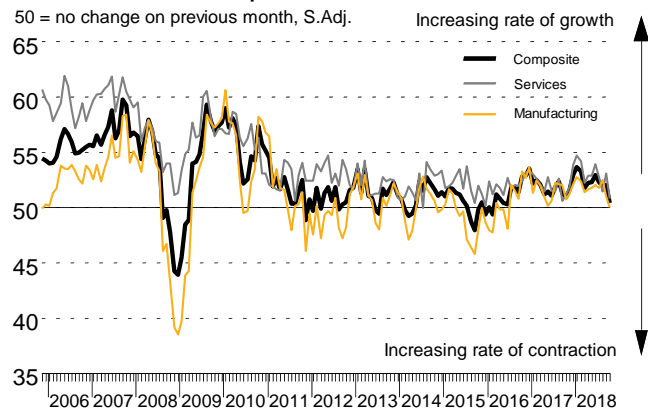
Commenting on the China General Services PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

“The Caixin China General Services Business Activity Index slipped significantly to 50.8 in October from the previous month, marking its lowest level since September 2017. The subindex for new business dropped to its lowest point since November 2008, despite staying in expansionary territory, indicating an obviously weakening demand for services. The employment

subindex returned to positive territory following a drop in the previous month. The subindex for prices charged by service providers also returned to positive territory, while the one for input costs dropped despite staying in positive territory, suggesting easing pressure on company profit margins. The subindex for business expectations, which gauges services providers' confidence toward operation prospects over the next 12 months, edged down mildly.

"The Caixin China Composite Output Index dipped to 50.5 in October from the previous month, reaching its lowest level since June 2016, indicating mounting downward pressure on China's economy. The subindex for new orders fell, pointing to softening overall demand conditions. The employment subindex edged up despite staying in negative territory, which could possibly be due to government efforts to stabilize the labor market. The subindex for input costs remained unchanged from the month before, while the one for output charges inched up, indicating easing pressure on company profit margins — though upward price pressure remained. The subindex for future output edged down, reflecting weakening confidence among companies."

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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