

China

Stabilising manufacturing sector supports economic growth

- Composite PMI signals faster growth in Q3 than Q2, driven by manufacturing upturn
- Despite improving business conditions, job cuts persist, especially in traditional industries
- Rising cost inflation causes firms to raise prices

China's economic growth has shown stronger signs of stabilising during the third quarter, reflecting a turnaround in the manufacturing sector. Services activity has maintained a moderate pace of expansion, providing stability to overall economic growth.

At the same time, overall job losses persisted as hiring in the service sector failed to compensate for further job cuts at manufacturing firms.

Although the **Caixin China Composite Output Index** – which tracks business activity in the combined manufacturing and service sectors – showed that output growth lost slight momentum in September from August, dipping from 51.8 to 51.4, its average over the third quarter was the highest for two years, lifted by a rise in manufacturing activity, while services growth remained steady.

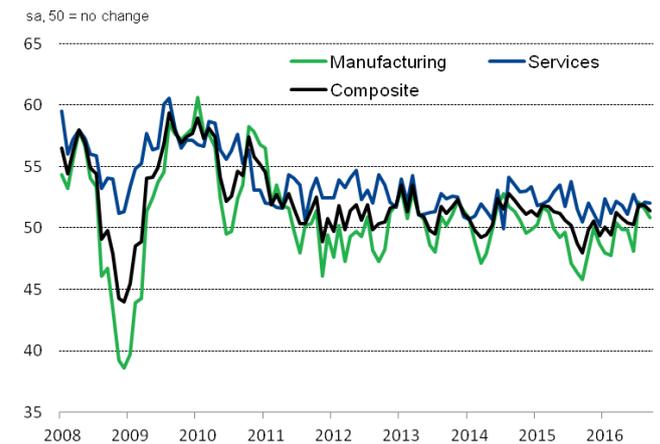
Greater new work inflows signalled improving client demand, which encouraged companies to raise production. Expansion in new orders during the third quarter as a whole was the highest since quarter four 2014, albeit still only moderate.

Disappointing jobs growth, rising costs

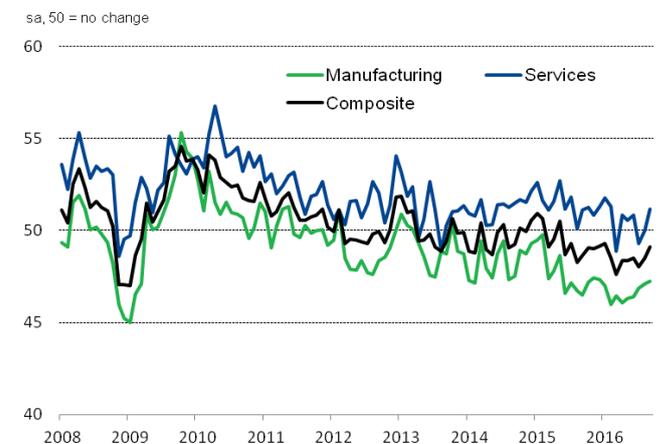
However, employment continued to lag the upturn in overall business activity. The **Caixin China Composite Employment Index** was below the critical 50.0 mark for the sixteenth consecutive month in September, which was reflected in a further rise in outstanding business.

Although the latest survey data pointed to the first increase in service sector payroll numbers since June, linked to efforts to cope with new projects, factory job losses continued to be seen. There are signs, however, that the rate of manufacturing job losses has begun to ease, accompanying the return to growth of new orders.

Stabilising economic growth

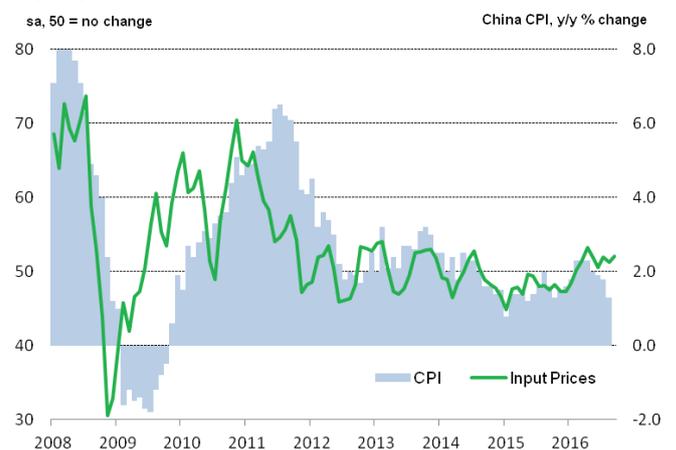


Ongoing job losses in manufacturing sector



Sources: IHS Markit, Caixin

Input prices v CPI



Sources: IHS Markit, Caixin, Datastream.

Meanwhile, September data revealed a faster rise in average cost burdens, on the back of greater manpower costs and higher buying prices. In response, companies sought to protect their profitability by raising charges, although the price hike was marginal among services providers.

Cautiously optimistic

The revival of growth in the manufacturing sector is a welcoming relief. But the modest rate of expansion of the service sector is a reminder that the rebalancing of China's economy to a consumption-based growth model is a slow process. The level of confidence in the service sector, while optimistic overall, remains below the series average, underscoring a cautious view towards future growth prospects.

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