Caixin China General Manufacturing PMI™

PMI edges down to 14-month low in August

Summary

August survey data signalled a further improvement in Chinese manufacturing operating conditions. Output continued to expand, and at a quicker pace than in July. However, new orders rose at the slowest rate since May 2017, while export sales declined for the fifth month in a row. At the same time, employment remained on a downward trend which, in turn, contributed to an increase in outstanding workloads. Inflationary pressures meanwhile picked up, with firms noting steeper increases in both input costs and output charges.

Confidence towards future output remained stuck near June's six-month low, with a number of panellists citing concerns over the impact of the ongoing China-US trade war and relatively subdued market conditions.

The headline seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted above the neutral 50.0 level at 50.6 in August. However, this was down from 50.8 in July and signalled the weakest improvement in the health of the sector since June 2017.

Manufacturing production continued to increase during August, and at the fastest rate since the start of the year. However, latest data indicated that demand conditions softened, with total new business rising at the slowest pace for 15 months. Weaker foreign demand contributed to the softer increase in overall new work, with export sales declining for the fifth month in a row.

Reports of company restructuring and cost-cutting initiatives underpinned a further reduction in headcounts at Chinese manufacturers in August. The rate of job shedding picked up from July but remained moderate overall. At the same time, backlogs of work rose for the thirtieth month in a row.

Manufacturers continued to expand their buying activity in August. That said, the rate of growth was modest and below the series average. Stocks of purchases meanwhile rose only slightly, which in part reflected a more cautious approach to inventory holdings. Notably, stocks of finished items fell for the fourth month in a row.

Average supplier performance continued to deteriorate in August, with some panellists linking longer lead times to stricter environmental policies. However, the rate at which delivery times lengthened was the slowest for six months.

Input costs increased at an accelerated rate in August, with the rate of inflation the second-sharpest in seven months. According to panellists, higher raw material costs drove the latest upturn in purchasing prices. As a result, average charges for manufactured goods rose further, with the rate of inflation also quickening since July.

Optimism regarding future production remained relatively subdued in August, with confidence little-changed from June's recent low. Positive forecasts were generally linked to expectations of rising client demand. However, concerns over the ongoing China-US trade war and softer demand conditions weighed on overall sentiment.

Key Points

- Output expands at faster pace...
- ...but new order growth weakens and employment continues to decline
- Confidence towards the 12-month business outlook remains lacklustre

Comment

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

"The Caixin China General Manufacturing PMI slipped to 50.6 in August from July, marking the third straight monthly drop and its lowest level since June 2017.

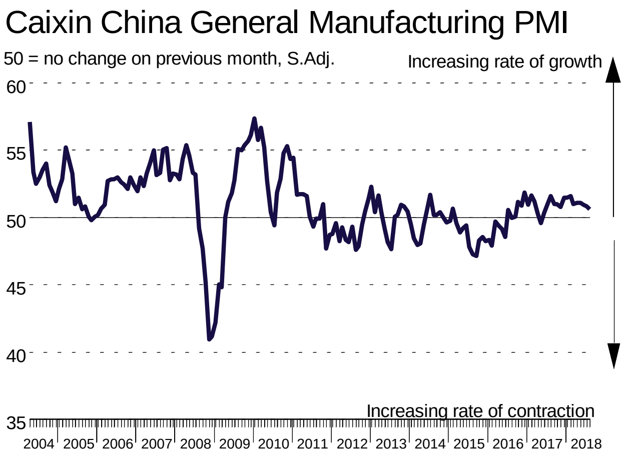
"The subindexes for new orders and output both remained in expansionary territory, with the former falling and the latter climbing up. This showed cooling demand and strong supply existed at the same time across the manufacturing sector.

"The employment subindex, remaining in contractionary territory, dipped to its lowest level since July 2017. The subindex for new export orders inched up despite remaining in contractionary territory, implying a still-grim export situation.

"Output charges and input costs both expanded at faster rates in August, indicating upward pressure on prices of industrial products. The subindex for future output, which reflects manufacturers' outlook of production over the next 12 months, remained in positive territory and continued to edge up.

"Stocks of finished items contracted at a steeper rate, while stocks of purchased items expanded further. The subindex for suppliers' delivery times rose, even though it failed to make it into positive territory, which implied a slightly improved capital turnover among goods producers.

"Generally speaking, the manufacturing sector continued to weaken amid soft demand, even though the supply side was still stable. Prices of industrial products were underpinned by a proactive fiscal policy and environmental protection policies that had limited some factory production. I don't think that stable supply can be sustained amid weak demand. In addition, the worsening employment situation is likely to have an impact on consumption growth. China's economy is now facing relatively obvious downward pressure."



Sources: IHS Markit, Caixin.

For further information, please contact:

Caixin Insight Group

Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis
Telephone +86-10-8104-8016
Email zhongzhengsheng@cebm.com.cn

Ma Ling, Director of Communications
Telephone +86-10-8590-5204
Email lingma@caixin.com

IHS Markit

Annabel Fiddes, Principal Economist
Telephone +44-1491-461-010
Email annabel.fiddes@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone +65-6922-4226
E-mail bernard.aw@ihsmarkit.com

Notes to Editors:

The Caixin China Report on General Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 manufacturing companies. The panel is stratified by company size and Standard Industrial Classification (SIC) group, based on industry contribution to Chinese GDP. 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'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights applied: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

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.

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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to https://ihsmarkit.com/products/pmi.html