

Caixin China General Manufacturing PMI™

Manufacturing production rises slightly in April

Summary

Latest PMI data showed that the overall health of China's manufacturing sector improved for the second month running in April, albeit at a softer pace. Output and total new work both rose slightly, though companies reported a marginal fall in new work from overseas. Buying activity meanwhile stabilised, but relatively subdued demand conditions led firms to remain reluctant to expand their inventories in April. Prices data indicated that overall inflationary pressures softened at the start of the second quarter. Input costs and output charges both rose only marginally, with some linking lower selling prices to recent sales tax reforms. Encouragingly, business confidence regarding the one-year outlook for production improved to an 11-month high.

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 down from 50.8 in March to 50.2 in April, to signal the second successive monthly improvement in business conditions. Although the rate of improvement was only slight, it nonetheless contrasted with the subdued trend seen at the turn of the year.

Latest data showed that manufacturing output in China rose again in April. Though marginal, the upturn extended the current expansionary sequence to three months. New orders followed a similar trend, and rose at a softer pace than seen in March. Data indicated that subdued sales largely stemmed from weaker foreign demand, as new export business fell for the second time in the past three months.

Companies signalled limited pressure on operating capacities at the start of the second quarter, as highlighted by the slowest increase in backlogs of work for three years. At the same time, efforts to contain costs and the non-replacement of voluntary leavers led to a slight fall in manufacturing workforce numbers.

Buying activity broadly stabilised following a three-month sequence of reduction. As a result, stocks of purchases were also broadly unchanged compared to the previous month. However, muted overall demand conditions meant manufacturing firms remained cautious regarding their inventories of finished items, which fell for the fourth month running.

Latest data showed an easing of pressure on supply chains across China's manufacturing sector, as delivery times for inputs increased only marginally.

Average purchasing costs rose again in April, though the rate of inflation was only slight. Factory gate prices also increased at a weaker pace, with some firms citing that charges were impacted by recent sales tax reforms.

On a positive note, business confidence strengthened to its highest for nearly a year in April. Positive forecasts were often linked by companies to new product launches, planned company expansions and expectations that global demand conditions will improve.

Key Points

- Overall operating conditions improve for the second month running
- Output and new orders both increase
- Inflationary pressures weaken

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 Purchasing Managers' Index eased to 50.2 in April, down from a recent high of 50.8 in the previous month, indicating a slowing expansion in the manufacturing sector.

1) *The subindex for new orders fell slightly despite remaining in expansionary territory. The gauge for new export orders returned to contractionary territory, suggesting cooling overseas demand.*

2) *The output subindex dropped. The employment subindex returned to negative territory after hitting a 74-month*

high in March. According to data from the National Bureau of Statistics, the surveyed urban unemployment rate remained at a relatively high level despite edging down in March, suggesting that pressure on the job market remained.

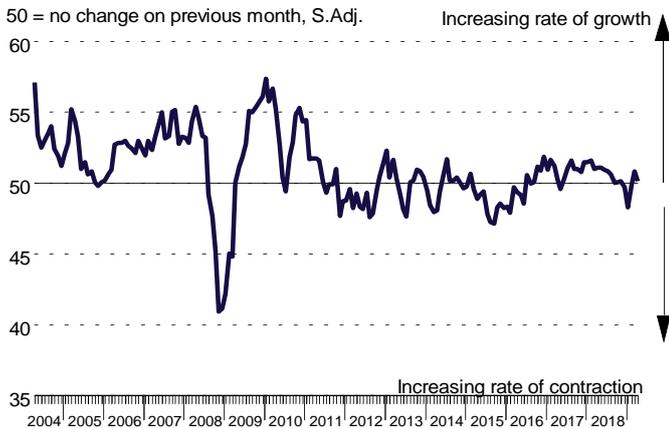
3) *While the subindex for stocks of purchased items returned to contractionary territory, the measure for stocks of finished goods fell more markedly. The gauge for future output edged up, pointing to manufacturers' desire to produce and stable product demand. The subindex for suppliers' delivery times rose further despite staying in negative territory, implying improvement in manufacturers' capital turnover.*

4) *Both gauges for output charges and input costs edged down. There were only small changes in upward pressure on industrial product prices. We predict that April's producer price index is likely to remain basically unchanged from the previous month.*

"In general, China's economy showed good resilience in April, yet it stabilized on a weak foundation and is not coming to an upward turning point. The Politburo meeting signalled that in the first quarter of this year China had adjusted its countercyclical policy marginally. As pressure on the economy

remains in the second quarter, we expect that there will be minor adjustments to the policy but not a turnaround.”

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Sources: IHS Markit, Caixin.

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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.

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