

# Caixin China General Manufacturing PMI™

Production stagnates in October

## Summary

Operating conditions in China's manufacturing sector were little-changed from the previous month in October. Production was broadly unchanged, as total new business rose only slightly. Subdued sales were partly linked to weaker foreign demand, with export sales declining for the seventh month in a row. Relatively soft market conditions contributed to a further drop in workforce numbers, albeit modest, while buying activity rose only slightly. Furthermore, confidence regarding the business outlook for output dipped to an 11-month low.

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 – rose only slightly from 50.0 in September to 50.1 in October. This signalled that operating conditions were broadly unchanged at the start of the fourth quarter, after stagnating in the previous month. Prior to September, the health of the sector had improved for 15 consecutive months.

After rising in the preceding 27 months, manufacturing production in China was little-changed in October. According to panellists, output schedules were largely unchanged due to relatively subdued market demand.

After stagnating in September, total new orders expanded slightly in October. According to panellists, sluggish market conditions had dampened client demand, with some firms also citing reduced foreign demand. The amount of new export business fell for the seventh month running in October, though the rate of decline softened from September.

Employment fell again in October, thereby extending the current sequence of job shedding to five years. That said, the rate of reduction was the slowest seen since May. Lower workforce numbers were often linked to company down-sizing plans and staff retirements. However, a combination of payroll cuts and insufficient production led to a further modest rise in backlogs of work.

October survey data pointed to a renewed increase in buying activity among Chinese manufacturers. Reflective of the trend for new orders, however, the rate of expansion was marginal. Consequently, stocks of purchased items rose only slightly. Stocks of finished items meanwhile declined for the sixth month in a row, albeit marginally.

The time taken for purchased inputs to be delivered to manufacturers continued to lengthen in October. The rate at which vendor performance deteriorated was slightly quicker than seen in September.

Prices data signalled a further squeeze on operating margins as input costs continued to rise at a faster rate than output charges. Notably, the rate of cost inflation accelerated to the second-sharpest in nine months.

Although firms were generally optimistic that output would increase over the next year, sentiment dipped to an 11-month low amid concerns over current subdued market conditions and the impact of the ongoing China-US trade dispute.

## Key Points

- Output broadly unchanged at start of fourth quarter
- Marginal increase in total new work amid further drop in export sales
- Input prices rise at a sharper rate

## 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 edged up to 50.1 in October from the month before. The subindexes for new orders and employment both edged higher, with the former remaining in expansionary territory and the latter in contractionary territory. The subindex for new export orders also recovered despite staying in negative territory, just off a more than two-year low in September.*

*"However, the output subindex dropped for the second straight month despite remaining in positive territory, which was in line with the recent significant drop in value-added industrial output despite the rise in manufacturing investment. This may indicate that investment was largely driven by demand related to environmental protection or technological transformation*

*instead of capacity expansion. The subindex for future output,*

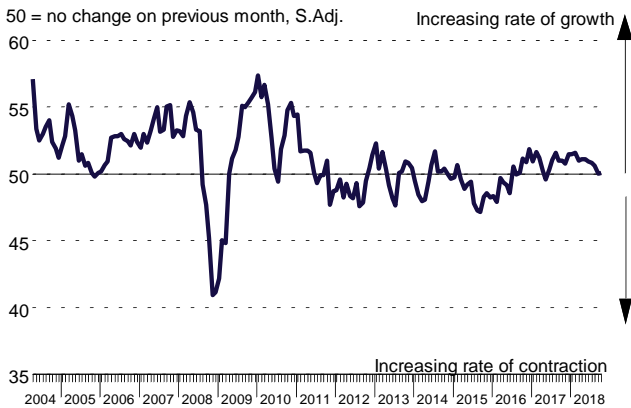
*which reflects manufacturers' production outlook over the next 12 months, stayed in positive territory but dipped further, suggesting ongoing low business confidence.*

*"The subindexes for output charges and input costs both stayed in positive territory, with the former falling and the latter climbing, indicating that upward pressure on the prices of industrial products remained. The subindexes for stocks of finished items and those of purchased items both rose marginally, with the former in negative territory and the latter in positive territory, pointing to a stable demand for manufactured goods. The subindex for suppliers' delivery times fell in October following a rise in the previous month and stayed in negative territory, implying ongoing pressure on capital turnover among goods producers.*

*"Overall, expansion across the manufacturing sector was still weak. Production and business confidence continued to cool despite stable demand. The pressure on production costs didn't ease. China's economy has not seen obvious improvement."*

Continued...

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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*<sup>™</sup> (*PMI*<sup>™</sup>) 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](mailto: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<sup>™</sup>, components of which include the Caixin China General Manufacturing PMI<sup>™</sup> and Caixin China General Services PMI<sup>™</sup>. These indexes are closely watched worldwide as reliable snapshots of China's economic health.

For more information, please visit [www.caixin.com](http://www.caixin.com) and [www.caixinglobal.com](http://www.caixinglobal.com).

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