

Caixin China General Manufacturing PMI™

Operating conditions improve marginally

Summary

Chinese manufacturing firms signalled a further slight improvement in overall operating conditions during May. Total new work rose at a faster pace, supported by a renewed increase in export sales, while production was broadly stable. As a result, backlogs of work continued to expand, though firms retained a relatively cautious approach to staffing levels. Inflationary pressures remained subdued, with input costs rising only slightly while output charges were unchanged from the previous month. However, business confidence regarding the year ahead softened midway through the second quarter.

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 – registered 50.2 in May, unchanged from the previous month, to signal a further marginal improvement in the health of China's manufacturing sector. The headline PMI has now posted above the neutral 50.0 level in each of the past three months.

Underpinning the positive PMI figure was a further increase in total new orders placed with Chinese goods producers. The rate of new business growth quickened slightly since April, supported by a renewed increase in new export sales. According to panellists, new product releases and firmer foreign demand supported the expansion.

Production at Chinese manufacturers was meanwhile stable in May, following a slight increase in the previous month.

The stronger rise in overall new business supported a renewed expansion in buying activity among Chinese manufacturing firms. Though only slight, it was the first time that purchasing activity had increased for five months. Inventories of inputs were broadly stable for the second month in a row. Meanwhile, greater usage of current stocks to fulfil new business reportedly underpinned a further decline in inventories of finished goods.

Companies retained a relatively cautious approach towards employment, noting a slight decline in staffing levels for the second successive month.

Higher new orders placed further pressure on capacity, as shown by an increase in backlogs of work during May. That said, the rate of accumulation remained marginal. Capacity pressures were also apparent at suppliers, with manufacturers noting longer lead times for purchased items for the fifth month in a row.

May data signalled only a marginal increase in average input costs faced by Chinese manufacturers. The rate of inflation remained notably softer than those seen this time last year. Factory gate prices were meanwhile unchanged from the previous month, with a number of firms commenting on competitive market pressures.

Business confidence slipped to the lowest level since the series began in April 2012 in May amid concerns of an escalating China-US trade war and forecasts of relatively subdued global demand.

Key Points

- Production broadly stable in May
- Total new work and export sales both increase slightly
- Renewed rise in purchasing activity

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 was 50.2 in May, unchanged from the previous month, indicating a mild expansion in the manufacturing sector.

1) *The subindex for new orders edged higher, and the gauge for new export orders moved back above 50 to the same level as in January, which was the best reading since March 2018. The improvements in both indices signals stable domestic and overseas demand.*

2) *The output subindex declined for the second straight month, although it remained marginally in expansionary*

territory. Employment conditions have broadly stabilized, with the employment subindex showing only a marginal drop in staff numbers.

3) *The gauge of stocks of purchased items moved back above the 50 mark that divides expansion from contraction and the measure of stocks of finished goods edged up, albeit remaining in contractionary territory, indicating that while inventories remain low, manufacturers' willingness to replenish stocks has strengthened. The subindex measuring supplier performance fell further into contractionary territory, to signal that companies are taking longer to ship orders and also a reflection of relatively low inventory levels.*

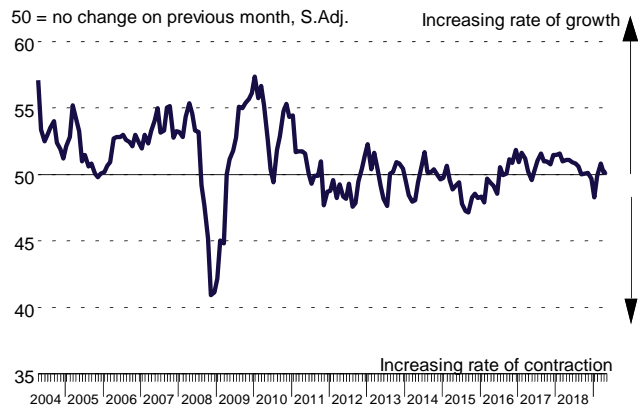
4) *The gauge of input prices showed a marginal increase, while that of output prices edged down to the lowest reading in four months, suggesting that while prices of manufactured goods remained relatively stable, enterprises are facing pressure from rising raw material prices.*

5) *The subindex measuring sentiment towards future output plunged to its lowest reading since the gauge began in April*

2012, a reflection of the trade conflict between China and the U.S. and weakened business confidence.

“Overall, China’s economy showed steady growth and resilience in May. The manufacturing sector saw demand rise from both overseas and domestic markets, and prices were stable. However, business confidence weakened, and manufacturers’ inventory levels remained low. The trade tensions between the U.S. and China are having an impact on confidence and the best way to respond to this is to boost the confidence of enterprises, residents and capital markets by carrying out favorable reforms and to undertake timely adjustments to regulations and controls.”

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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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