Caixin China General Manufacturing PMI™

Production expands slightly in February

Summary

Operating conditions faced by Chinese manufacturers were broadly stable in February. Encouragingly, both output and total new orders expanded slightly, despite export sales slipping back into contraction. At the same time, capacity pressures continued to build, with backlogs of work rising further. However, efforts to contain costs contributed to a further decline in employment and inventories. At the same time, a relatively subdued demand outlook weighed on purchasing activity, while confidence towards the year-ahead edged down slightly. Prices data meanwhile showed that average input costs fell for the third month in a row, but prices charged rose slightly.

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 only fractionally below the neutral 50.0 mark at 49.9 in February, to signal broadly stable operating conditions. Notably, the reading was up from January's recent low of 48.3, to mark its highest level in three months.

February survey data signalled a renewed increase in Chinese manufacturing production. Though marginal, the expansion contrasted with a modest reduction at the start of the year. A number of panellists raised output due to firmer client demand, as total new orders also rose slightly during February. Data indicated that the upturn was predominantly driven by greater domestic demand, as new export orders fell marginally.

The level of outstanding work at Chinese goods producers rose for the thirty-sixth month running in February. The rate of accumulation was similar to those seen in recent months and modest. Signs of sustained pressure on operating capacity occurred alongside a further fall in staffing levels.

Relatively soft demand conditions led manufacturers to reduce their purchasing activity for the second month in a row. At the same time, plans to streamline costs contributed to further falls in inventories of both purchased items and finished goods.

Supply chains remained under pressure in February, as shown by a second successive monthly deterioration in vendor performance. Though modest, lead times increased to the greatest extent for eight months.

Average purchasing costs fell in February, albeit at the weakest rate in the current three-month sequence of reduction. Some panellists linked the decline to lower raw material prices. In contrast, output charges increased midway through the opening quarter of the year. Though marginal, it was the first time that selling prices had risen since last October.

Businesses were generally confident that output would rise over the next 12 months in February. However, the degree of optimism slipped slightly from January's eight-month high. Positive projections were often linked to new products, increased investment and expectations that market conditions will improve.

Key Points

- Renewed rise in output as total new business picks up
- Backlogs continue to rise, but employment trend remains subdued
- Selling prices increase for first time in four months

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 picked up to 49.9 in February from a recent low of 48.3 in the previous month, pointing to an easing of the economic downturn.

"The subindex for new orders returned to expansionary territory in February after staying in contraction for two months. Despite slipping back into contractionary territory following a rise the month before, the gauge for new export orders hit its second highest level since March 2018. Domestic manufacturing demand improved significantly, and foreign demand was not deteriorating as quickly as last year.

"The output subindex also returned to positive territory. The employment subindex dropped slightly further into negative territory, suggesting no sharp rise in pressure on the job market. The measure for stocks of finished goods fell further into negative territory, and reached its lowest level since May 2016. The subindex for stocks of purchased items picked up despite staying in negative territory, indicating a marginal recovery in manufacturers' willingness to replenish their inventories. The subindex for suppliers' delivery times fell further into negative territory, indicating mounting pressure on their capital turnover.

"Both gauges for input costs and output charges picked up, while the one for output charges rose more notably, implying that year-on-year growth in the producer price index was likely to have picked up slightly in February.

"Overall, with the early issuances of local governments' special-purpose bonds and targeted adjustments to monetary policy, the situation in the manufacturing sector recovered markedly in February due to the effect of increased infrastructure investment. Prices of industrial products also

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picked up due to improving demand and the rebound in international commodity prices. However, the pressure on manufacturers' capital turnover became obvious again, which may reflect that the financing environment was not easing as expected, and the effect of credit expansion is not yet significant."

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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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