

Embargoed until: 09:45 (Beijing Time) July 1st 2016

Caixin China General Manufacturing PMI™

PMI sinks to four-month low at end of second quarter

Key findings:

- June data signals faster contractions of output and new orders
- Further solid reduction in staff numbers
- Renewed fall in average input costs

Chinese manufacturers reported the sharpest deterioration in operating conditions for four months in June, with output falling at the quickest rate since February amid a further drop in new work. Consequently, companies continued to pare back their staff numbers at a solid pace, while trimming their inventory holdings of inputs and finished goods further. Prices data indicated a renewed fall in cost burdens faced by Chinese goods producers, while output charges were left broadly unchanged after a three-month sequence of inflation.

Adjusted for seasonal factors, the *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – registered at 48.6 in June, down from 49.2 in May, to signal a further deterioration in the health of China's manufacturing sector. Furthermore, the rate of deterioration, though moderate, was the fastest seen in four months.

A faster contraction of manufacturing output weighed on the headline index in June. Furthermore, it was the quickest reduction in production for four months. Panellists widely commented that poor market conditions and a drop in new work had led them to cut output. Weaker client demand was highlighted by a second successive monthly fall in total new work placed at manufacturing firms during June, albeit marginal. Data suggested that part of the weakness stemmed from softer foreign client demand, with new export sales declining for the seventh month in a row

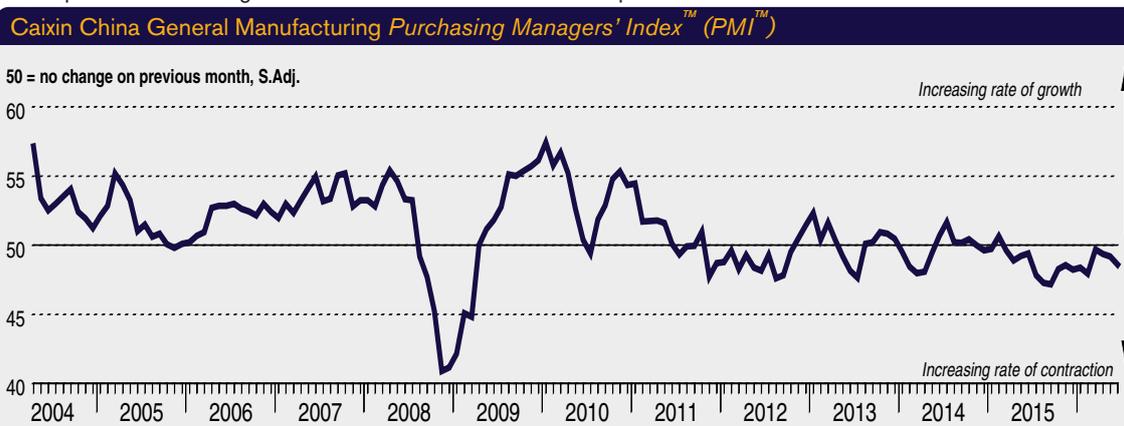
and at a moderate pace.

As part of efforts to cut costs and raise efficiency, businesses reduced their staffing levels again in June. Employment in the sector has now fallen in each of the past 32 months. Furthermore, the rate of contraction was similar to those seen in the preceding four months and solid. Meanwhile, backlogs of work rose, with some respondents linking growth to new product developments. Though modest, it was the fastest rise in outstanding workloads for a year-and-a-half.

Fewer new orders contributed to a reduced amount of purchasing activity across China's manufacturing sector in June, though the rate of reduction was only slight. At the same time, companies maintained tighter inventory policies, with stocks of both pre-production and finished goods falling, albeit at slower rates than in the previous month.

Despite another drop in input buying, lead times for deliveries continued to lengthen in June amid reports of stock shortages at vendors. However, the rate at which supplier performance deteriorated was only slight.

After a three-month sequence of inflation, average cost burdens faced by Chinese goods producers fell in June. Some respondents mentioned that deflationary pressures stemmed from lower raw material costs. That said, the rate of reduction was marginal overall. Meanwhile, prices charged by Chinese manufacturers were broadly unchanged since the previous month.



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.

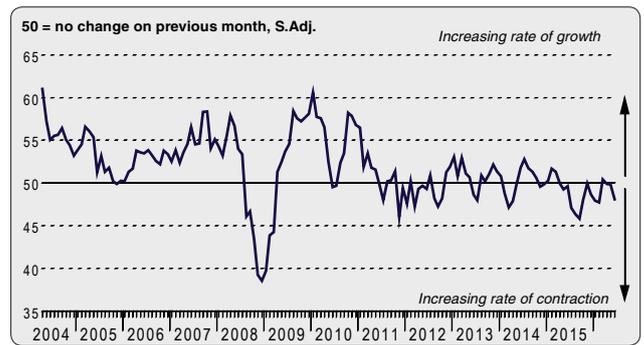
Caixin Insight Group is a high-end financial data and analysis platform. The group encompasses the monthly Caixin China Purchasing Managers' Index™, components of which include the Caixin China General Manufacturing PMI™ and Caixin China General Services PMI™. These indexes are closely watched worldwide as reliable snapshots of China's economic health. For more information, please visit www.caixin.com.

The intellectual property rights to the Caixin China General Manufacturing PMI™ provided herein are owned by or licensed to Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Caixin use the above marks under license. Markit is a registered trade mark of Markit Group Limited.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

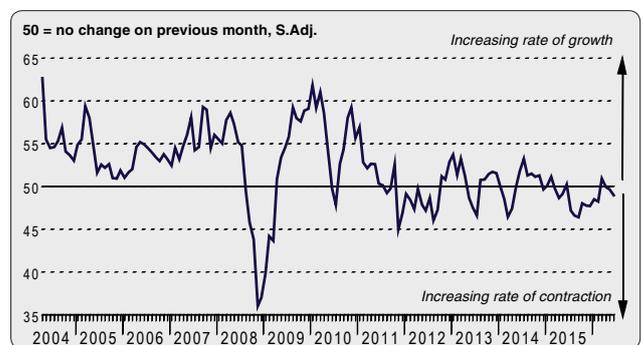
The seasonally adjusted Output Index remained below the no-change 50.0 level in June to signal the third successive monthly decline in Chinese manufacturing production. Furthermore, the rate of contraction quickened to the fastest since February. Reports from panellists suggested that firms cut output in response to poor market conditions and a lack of new orders.



New Orders Index

Q. Please compare the state of your new orders (in units) this month with one month ago.

Manufacturing businesses based in China saw a reduced amount of total new work for the second month running in June. Adjusted for seasonality, the respective index indicated that the rate of decline remained marginal, despite quickening since the previous month. A number of monitored firms mentioned that subdued economic conditions had weighed on customer demand.



New Export Orders Index

Q. Please compare the state of your new export orders (in units) this month with one month ago.

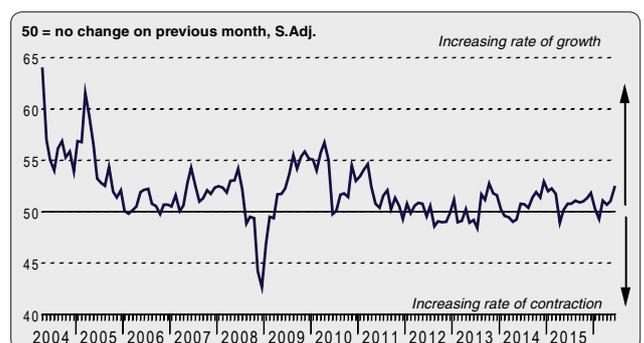
As has been the case in each month since December 2015, new export work placed at Chinese goods producers declined in June. The extent to which new export sales fell was similar to that seen in May and moderate overall. According to anecdotal evidence, deteriorating global market conditions dampened foreign client demand.



Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with one month ago.

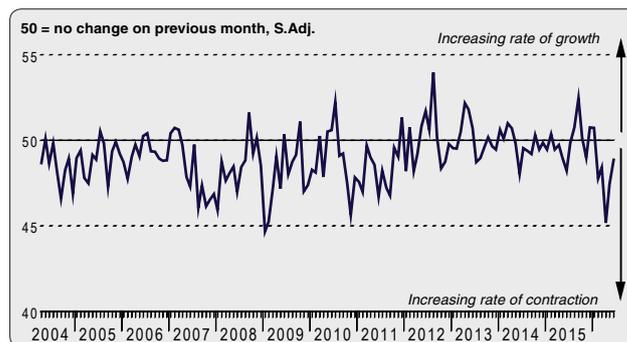
Adjusted for seasonal variance, the Backlogs of Work Index signalled a further rise in the amount of outstanding work in June. Furthermore, the rate of accumulation quickened to a pace that, though modest, was the fastest in a year-and-a-half. Some companies indicated that the launch of new products had led to a build-up in the level of work-in-hand (but not yet completed).



Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

Latest survey data indicated a further fall in inventories of finished items held at Chinese manufacturers during June. After adjusting for seasonality, however, the rate of depletion was the slowest seen in five months and marginal. Businesses that reported reduced inventory holdings generally linked the fall to lower output and tighter stock control measures.



Employment Index

Q. Please compare the level of employment at your unit this month with the situation one month ago.

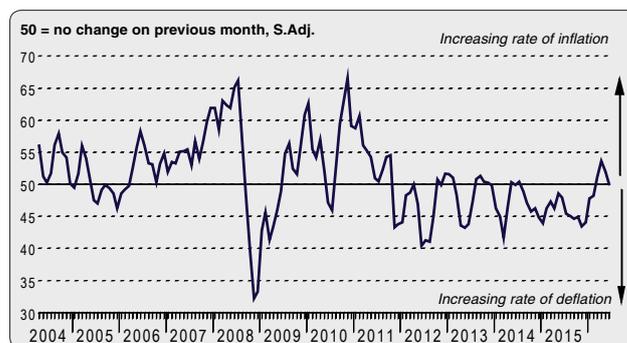
Staff numbers declined across China's manufacturing sector in June, thereby extending the current sequence of job shedding to 32 months. The rate of reduction was similar to those seen in the four preceding months and solid overall. Nearly 10% of surveyed firms noted lower employment in the latest survey period, with some companies mentioning shedding staff to reduce costs and raise efficiency.



Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

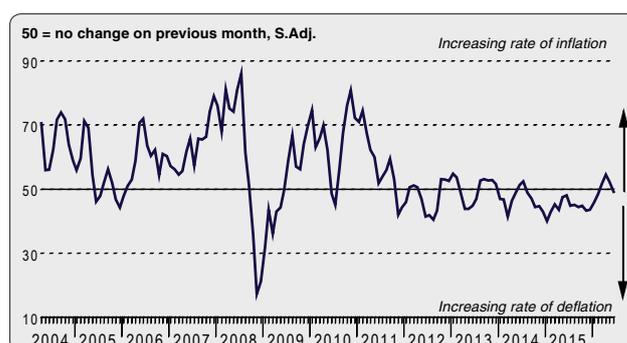
Output charges set by Chinese manufacturers were broadly unchanged in June. This contrasted with increases to average selling prices in each of the three preceding months. Anecdotal evidence indicated that some firms raised their charges due to higher input costs, while other companies cut their prices due to greater competitive pressures.



Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

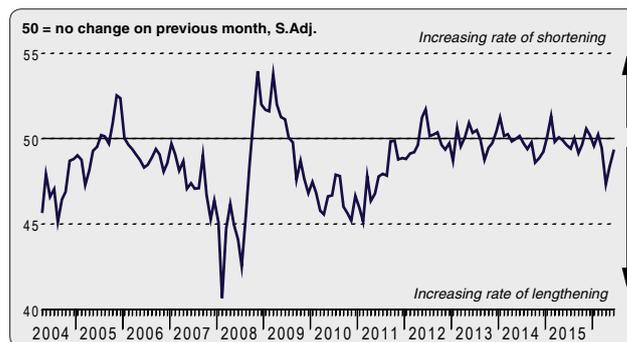
June data signalled a renewed fall in average input costs faced by Chinese goods producers, thereby ending a three-month sequence of rising cost burdens. That said, the rate of deflation was marginal overall. Lower input costs were generally linked by panellists to reduced prices for raw materials.



Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.

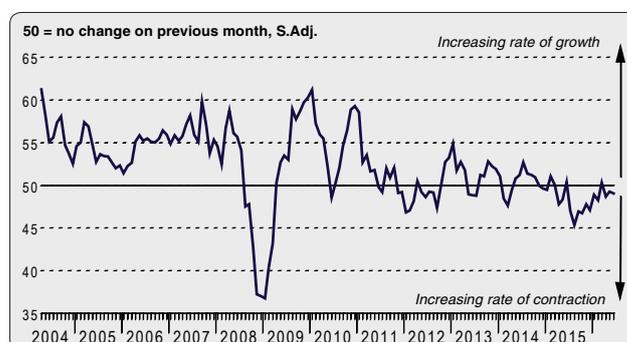
Manufacturers in China reported a further deterioration in average supplier performance in June. After adjusting for seasonal variance, the Suppliers' Delivery Times Index indicated that the rate of deterioration was the slowest seen in three months and only slight. Longer delivery times for inputs were largely attributed by respondents to stock shortages at vendors.



Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

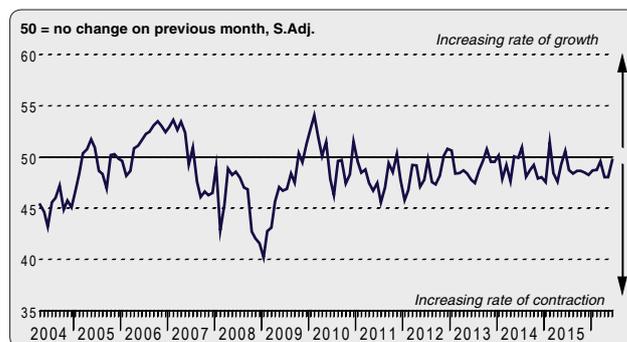
Adjusted for seasonal factors, the Quantity of Purchases Index registered below the neutral 50.0 threshold to signal a further decline in buying activity across China's manufacturing sector. However, the pace of contraction was similar to that seen in May and marginal. Companies that reported lower purchasing activity generally commented on reduced intakes of new work.



Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.

Reduced input buying contributed to a further fall in inventories of pre-production items in the latest survey period. That said, the rate of stock depletion eased to a fractional pace that was the weakest in the current 12-month sequence of decline. Some panellists also commented on efforts to reduce inventories to help cut costs.



Notes on Data and Survey Methodology

The Caixin China General Manufacturing PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 industrial companies. The panel is stratified by company size and by 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'.

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 Markit. Please contact economics@markit.com.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: 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. The PMI is designed to show a convenient single-figure summary of the health of the manufacturing sector.

Markit Economics

Purchasing Managers' Index™ (PMI™) surveys are now available for over 30 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 www.markit.com/economics. Copies of the report are available on annual subscription from Markit. For subscription details please contact: economics@markit.com