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Caixin China General Manufacturing PMI™

Operating conditions improve for first time since February 2015

Key findings:

- Renewed expansions in output, new orders and purchasing activity
- Payrolls cut again and a solid rise in backlogs of work was recorded
- Marked increases in input costs and output charges

July survey data signalled a renewed upturn in operating conditions faced by Chinese manufacturers, with output, new orders and buying activity all returning to growth. However, employment continued to decline and at a solid pace, which in turn contributed to the quickest rise in outstanding business since March 2011. Meanwhile, increased prices for raw materials led to a marked rise in average input costs, which companies generally passed on to clients in the form of higher output charges.

At 50.6 in July, the seasonally adjusted *Purchasing Managers' Index™* (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – rose from 48.6 in June to signal a renewed improvement in operating conditions. Though only slight, it was the first strengthening in the health of the sector since February 2015.

Driving the headline index higher in July was a renewed rise in total new business. Though moderate, it was the first time that overall new orders had increased since March. Respondents commented that new products and improved marketing strategies had boosted new business. Data indicated that growth in new work was largely due to stronger domestic demand, however, as export sales declined marginally at the start of the third quarter.

In response to improved inflows of total new work, manufacturers raised their production for the first time in four months. The rate of expansion, though modest, was the fastest seen in two years.

Despite the upturn in new orders, goods producers continued to lower their staffing levels in July. According to respondents, job shedding was largely driven by efforts to reduce costs and raise productivity. Furthermore, the rate at which employment fell was solid, despite easing to its weakest for six months. A combination of lower workforce numbers and higher amounts of new work led to a build-up in the level of work-in-hand for the fifth month in a row. Moreover, the rate of accumulation was the fastest seen since March 2011.

Higher production contributed to a renewed expansion in purchasing activity. Though modest, it was the first time input buying had increased since March. Subsequently, inventories of inputs rose over the month, and at a moderate pace. Meanwhile, stocks of finished goods increased for the first time since January, albeit fractionally, which some firms attributed to greater output.

Stronger demand for inputs added pressure to supply chains in July, with average delivery times lengthening for the fifth successive month. That said, the degree to which times increased was marginal.

After a slight drop in June, average input costs increased across China's manufacturing sector in July. Furthermore, the rate of inflation was the second-fastest since September 2013 (behind April 2016). According to respondents, higher prices for raw materials, particularly metals, had led to increased cost burdens. As a result, companies raised their prices charged and at a solid pace.

Caixin China General Manufacturing Purchasing Managers' Index™ (PMI™)



About Caixin:

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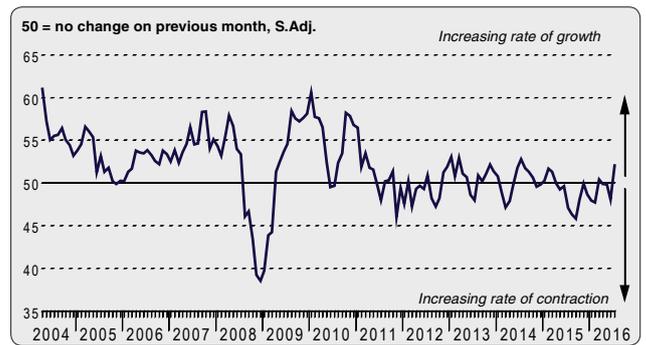
Caixin Insight Group is a high-end financial data and analysis platform. The group encompasses the monthly Caixin China Purchasing Managers' Index™, components of which include the Caixin China General Manufacturing PMI™ and Caixin China General Services PMI™. These indexes are closely watched worldwide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

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Output Index

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

July survey data pointed to an upturn in production volumes at Chinese manufacturers for the first time in four months. Though the rate of expansion was moderate overall, it was the strongest rate of growth recorded for two years. Companies that raised output generally commented on improved sales and new product launches.



New Orders Index

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

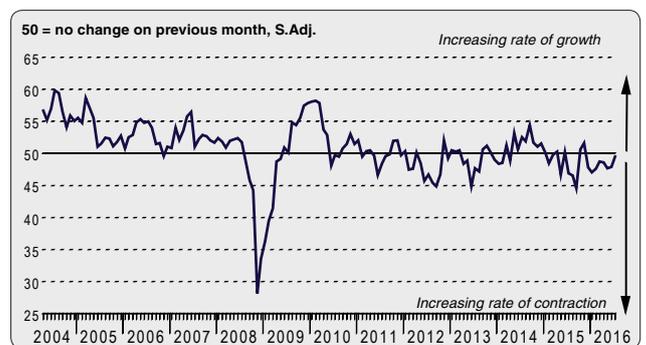
Adjusted for seasonal variation, the New Orders Index posted above the neutral 50.0 value in July, to signal the first rise in new business for four months. Though modest, the rate of new order growth was the fastest seen since February 2015. Anecdotal evidence suggested that new marketing strategies and the launch of new products had boosted incoming new work.



New Export Orders Index

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

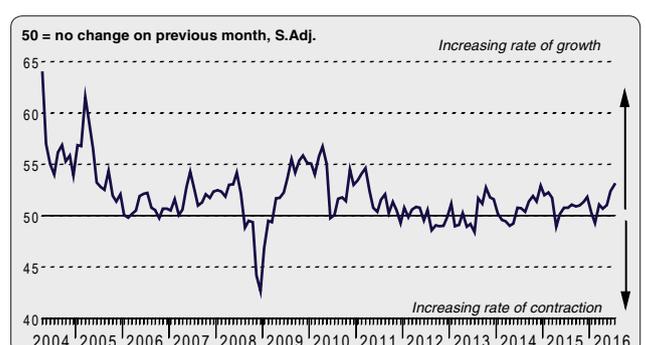
Chinese goods producers signalled a further fall in new export business in July. That said, the rate of contraction softened to a marginal pace that was the weakest in the current eight-month sequence. According to panellists, relatively subdued global economic conditions had weighed on overall foreign client demand at the start of the third quarter.



Backlogs of Work Index

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

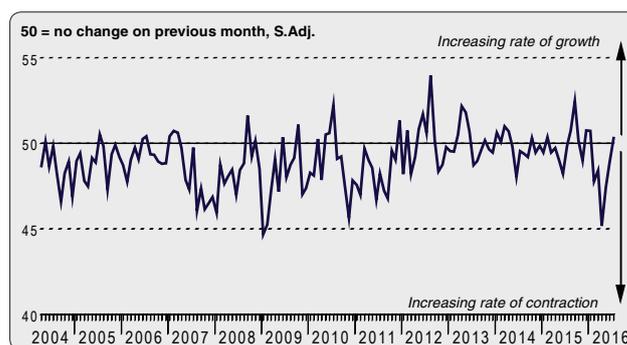
Unfinished workloads at Chinese manufacturing companies increased for the fifth successive month in July. Furthermore, the rate of backlog accumulation was the quickest seen since March 2011. Some firms mentioned that the level of work-in-hand (but not yet completed) had increased due to higher new orders, while others mentioned a lack of manpower had contributed to the build-up of unfinished work.



Stocks of Finished Goods Index

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

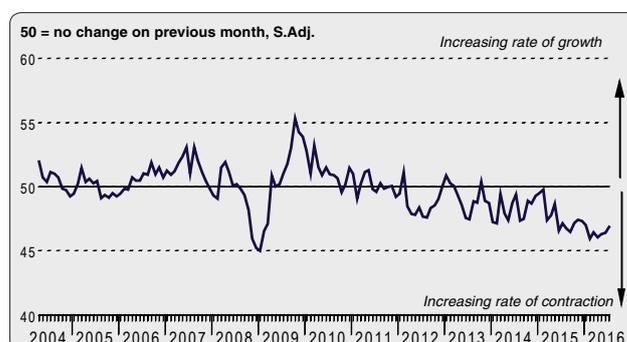
Manufacturers operating in China signalled a renewed accumulation of finished goods in July. Although the rate of expansion was only slight, this ended a five-month sequence of falling inventories. A number of monitored companies mentioned that higher production had contributed to increased inventories. However, other businesses mentioned that stocks had risen as goods had not yet been delivered to clients.



Employment Index

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

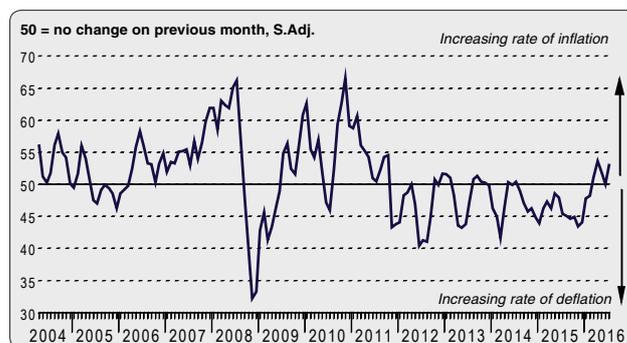
Chinese manufacturing businesses continued to report lower workforce numbers in July, which extended the current sequence of falling employment to 33 months. The rate of job shedding was the slowest seen since January, but nonetheless remained solid overall. According to respondents, companies lowered their staff numbers as part of cost-cutting initiatives.



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.

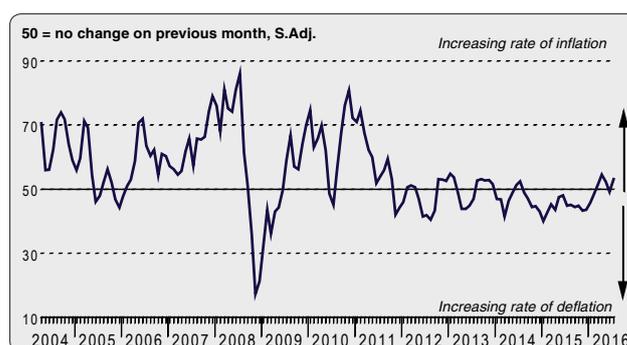
After broadly stabilising in June, output prices set by Chinese goods producers increased solidly during July. Furthermore, around 9% of surveyed firms raised their selling prices, compared with less than 3% that reduced theirs. Businesses that increased their charges widely reported on passing on higher production costs to clients.



Input Prices Index

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

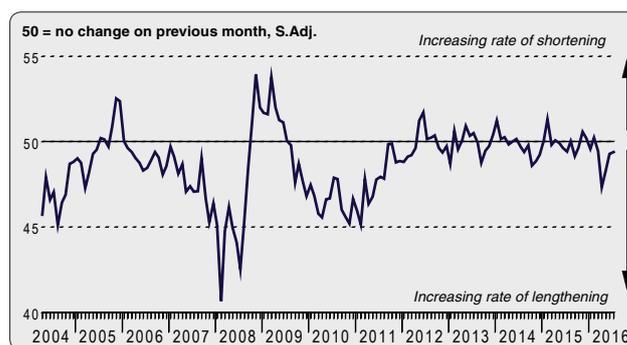
July data signalled a marked rise in cost burdens faced by Chinese manufacturers, which offset a marginal reduction in the previous month. Input costs have now increased in four of the past five months, with the latest rate of inflation the second-fastest since September 2013 (behind April 2016). Higher cost burdens were generally linked by panellists to increased raw material prices, particularly for metals.



Suppliers' Delivery Times Index

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

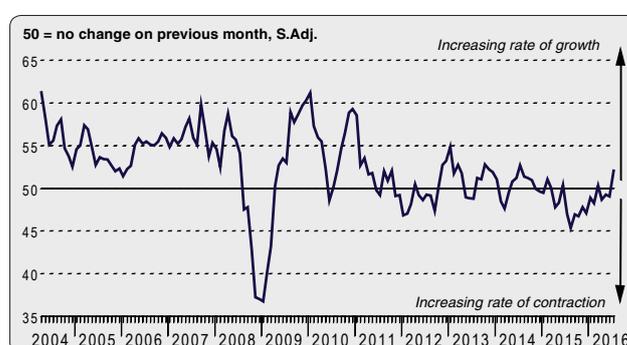
As has been the case since March, Chinese goods producers recorded a deterioration in average vendor performance in July. After adjusting for seasonality, the rate at which lead times lengthened was little-changed from June and only marginal. Reports from panellists suggested that increased amounts of orders placed with vendors had placed pressure on supply chains.



Quantity of Purchases Index

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

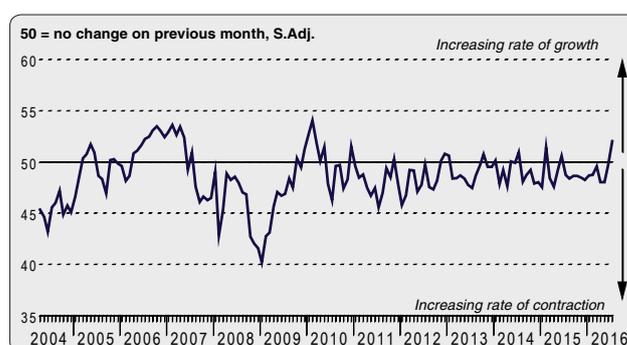
Companies producing manufactured goods in China raised their purchasing activity during July, thereby ending a three-month sequence of reduction. The rate of expansion, though modest, was the quickest seen in two years, with almost 10% of the panel noting increased input buying. Anecdotal evidence suggested that improved sales and greater production schedules led firms to purchase an increased amount of inputs.



Stocks of Purchases Index

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

In line with the trend for buying activity, stocks of purchased items increased modestly in July. This contrasted with reductions to inventories in each of the prior 12 months. Higher stock levels were generally linked by respondents to increased production requirements.



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.

About PMI

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 or contact: economics@markit.com