

Caixin China General Manufacturing PMI™

Production increases at weakest pace since June

Summary

October survey data signalled a further marginal improvement in manufacturing operating conditions across China. While new orders rose at a slightly quicker pace, production increased at the softest rate for four months. At the same time, companies continued to shed staff amid reports of company-downsizing policies and efforts to raise efficiency. This in turn contributed to a further increase in outstanding business, which rose solidly. Strict environmental policies meanwhile contributed to a sharp rise in input costs and weighed on vendor performance. As a result, companies raised their factory gate prices at a solid pace.

The seasonally adjusted *Purchasing Managers' Index*™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – was unchanged from September's reading of 51.0 in October to signal a further marginal improvement in the health of the sector. Operating conditions have now strengthened in each of the past five months.

Manufacturing companies in China reported a further increase in new business during October. The rate of expansion picked up slightly since September, but remained moderate overall. New export sales rose at a similarly modest pace, following a marginal upturn in September.

In contrast, production increased only slightly in October. Moreover, the rate of growth was the weakest seen for four months. At the same time, confidence towards the 12-month outlook for production moderated to its second-lowest level since August 2016.

Chinese manufacturing employment fell again in October, thereby extending the current sequence of job shedding to four years. Some panellists mentioned lowering workforce numbers in order to boost efficiency. That said, the rate of reduction remained moderate. Reduced staffing levels and higher than expected new orders led to a further increase in backlogs of work. Notably, the rate of accumulation was the joint-steepest since March 2011 (on par with July 2016).

Firms continued to raise their purchasing activity at the start of the fourth quarter, albeit at a marginal pace. However, stocks of inputs declined for the second month running as a number of firms commented on the increased use of current inventories to meet production requirements. Stocks of finished goods held by Chinese manufacturers also declined slightly in October.

Stringent environmental inspection policies and low stock levels among suppliers contributed to a further deterioration in delivery times. These factors also contributed to a further sharp increase in average purchasing costs. The rate of input price inflation edged down only slightly since September and was among the highest seen since early-2011.

In order to protect their margins, firms raised their selling prices again in October. That said, the rate of increase was not as steep as the previous month.

Key Points

- Output rises only slightly while new order growth improves
- Staff numbers continue to fall; steeper increase in backlogs recorded
- Input price inflation remains sharp

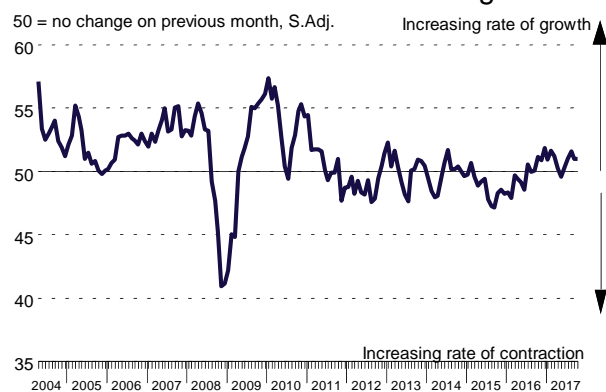
Comment

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 was 51.0 in October, unchanged from September and remaining in expansionary territory. The sub-index for output fell for the third straight month in October and was weaker than the average seen over the first 10 months of the year, even though growth in new orders picked up. The sub-indices for input costs and output prices both moderated from the previous month but remained at rather high levels. Stocks of finished goods and stocks of purchases lingered in contraction territory, although their paces of decline eased moderately from September. China's manufacturing sector expanded steadily in

October. But the stringent production curbs imposed by the government to reduce pollution and relatively low inventory levels have added to cost pressures on companies in midstream and downstream industries, which could have a negative impact on production in the coming months."

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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.

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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 www.markit.com/product/pmi.

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