

Caixin China General Manufacturing PMI™

Manufacturing sector expands modestly in May

Summary

May survey data pointed to only a modest expansion of China's manufacturing sector. Growth in production and new orders picked up slightly from April, while firms reported a further fall in new export sales. At the same time, companies reduced staffing levels again as part of efforts to cut costs and raise efficiency. This, in part, drove a further increase in outstanding workloads. Inflationary pressures meanwhile intensified, with both input costs and output charges rising at solid rates. Although confidence towards the 12-month outlook for production improved in May, optimism remained subdued by historical standards.

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 – was unchanged from the previous month at 51.1 in May. The reading signalled a further modest improvement in the health of the sector. Operating conditions have now strengthened in each month for the past year.

Chinese manufacturers signalled that new orders expanded at a slightly quicker, but still moderate, pace during May. While some panellists commented on improved client demand, others mentioned that subdued market conditions had weighed on overall growth. Concurrently, new export business fell for the second month running, albeit marginally.

Production levels rose at a fractionally faster pace in May that nevertheless failed to match growth rates seen at the start of the year.

Manufacturers in China raised their input buying again in May, though at a modest rate that was softer than recorded in April. However, low stock levels among vendors contributed to a further lengthening of average delivery times for inputs.

Stocks of purchases meanwhile rose only slightly, with the rate of accumulation similar to those seen in the prior two months. In contrast, inventories of finished items fell for the first time in four months (albeit marginally).

As has been the case since late 2013, employment fell in May. The latest reduction was commonly linked to cost-cutting efforts. Notably, the rate of job shedding picked up from the previous month. At the same time, backlogs of work rose further, which some panellists linked to insufficient production levels. However, the rate of accumulation moderated from April.

Cost pressures picked up in May, with average input prices rising at the fastest rate for three months. Respondents widely attributed higher cost burdens to greater raw material prices such as chemicals, metals and oil. As a result, prices charged for manufactured goods rose at a solid pace that was the fastest in 2018 so far.

Looking ahead, goods producers in China remained optimistic that output would increase over the next year amid forecasts of rising client demand and the launch of new products. However, the level of sentiment remained weaker than the series average.

Key Points

- Production growth edges up, but remains moderate
- Total new work expands at slightly quicker pace, despite decline in export sales
- Employment continues to fall amid efforts to reduce costs

rose slightly. The index measuring stocks of finished goods dropped, while the stocks of purchases index was unchanged from April, suggesting that product demand has been sufficient.

“Overall, operating conditions across the manufacturing sector remained stable. The growth in the price of industrial products has gained momentum, however, the export situation was still disappointing.”

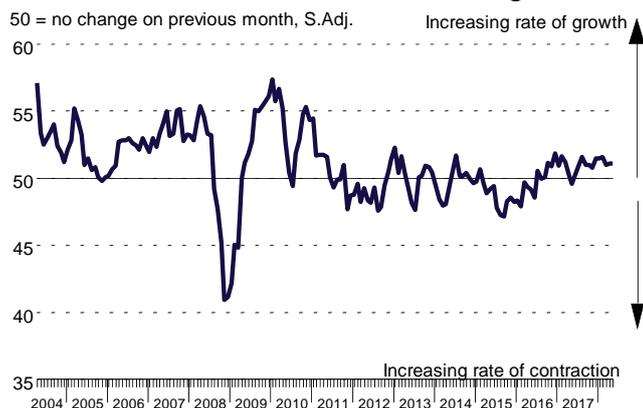
Comment

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 stood at 51.1 in May, the same as the reading in April, showing that growth was sustained. The output and new order indices both rose, while the employment index dipped, indicating a stable supply and demand situation, but no signs of job creation in the sector. The index for new export orders picked up in May, but remained in contraction territory, reflecting that the export situation was still grim. The indices for output charges and input prices both rose, showing that product supply got tighter and price pressures remained high, which can help boost manufacturers' profits. Accordingly, the future output index

Continued...

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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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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>

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