

Caixin China General Manufacturing PMI™

Manufacturing PMI dips to four-month low in March

Summary

Chinese manufacturing companies signalled only a marginal improvement in overall operating conditions at the end of the first quarter. Production and total new orders both expanded at the weakest rates for four months, while export sales increased only marginally. At the same time, staff numbers declined at the quickest pace since last August amid reports of cost-cutting plans. Overall inflationary pressures meanwhile cooled further, with input costs increasing at the slowest rate for nine months, while firms raised their selling prices only modestly. Encouragingly, confidence towards growth prospects improved to a one-year high amid forecasts of greater investment and expectations of better market conditions.

Adjusted for seasonal factors, the headline *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.0 in March, down from 51.6 in February. Although the reading signalled a further improvement in the health of the sector, the latest upturn was only slight and the weakest recorded since last November.

The amount of total new work placed with Chinese manufacturers increased again in March, though the pace of expansion softened to a four-month low. Weaker growth in overall new orders was in part driven by relatively muted foreign demand, as new export work increased only slightly at the end of the first quarter.

Reflective of the trend for new work, production levels rose to the softest extent since last November, and only modestly overall. Concurrently, relatively subdued sales contributed to a marginal increase in inventories of finished items.

Companies continued to reduce staff numbers, with the rate of job shedding quickening slightly to the most marked for seven months. A number of respondents mentioned that efforts to lower costs had been behind the latest drop in employment.

A combination of lower staff and higher order volumes led to a further increase in backlogs of work. Furthermore, the rate of accumulation quickened slightly since February.

Sustained growth in new orders underpinned a further rise in purchasing activity across China's manufacturing sector. In line with the trend for new orders and output, the rate of growth was the weakest seen for four months. Nonetheless, the rise was sufficient to lead to a further increase in stocks of inputs, albeit one that was marginal.

Environmental inspection policies were cited as the key driver of longer lead times for inputs during March. Vendor performance has now deteriorated for 19 months in a row.

Average input price inflation continued to soften from September's recent peak, with cost burdens rising to the weakest extent for nine months in March. At the same time, factory gate prices increased only modestly.

Although demand conditions softened slightly, confidence towards the 12-month outlook for production improved to a one-year high in March.

Key Points

- Output, new orders and export sales all rise at weaker rates
- Quicker decline in headcounts
- Input price inflation cools to nine-month low

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 fell to 51.0 in March. The sub-indices of output and employment both fell from the previous month, while new orders increased at a slightly slower rate, highlighting that the deceleration in the manufacturing sector was mainly driven by the supply side and that demand has remained relatively stable."

"Output prices rose at a faster pace in March than in the previous month while the increase in input costs weakened markedly, which will help shore up manufacturers' profits."

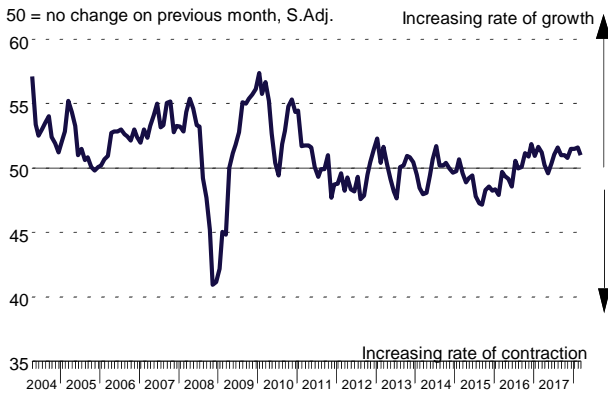
"The willingness of companies to restock waned as, apart from a slower expansion in output, the growth rates in stocks of finished goods and stocks of purchases also declined in March."

"Overall, the manufacturing PMI reading in March showed that demand was not as strong as expected, leading to lower willingness of manufacturers to produce and restock. However, the ability of manufacturers to make a profit was beefed up by the stable increase in new orders and the much slower jump in input costs."

"The growth momentum of the Chinese manufacturing economy may have weakened in March, but at a marginal pace."

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.

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