

Caixin China General Manufacturing PMI™

New business rises at quickest rate for over three years

Summary

China's manufacturing sector remained in expansion territory in August, fuelled by the strongest increase in new business for just over three years. Firmer foreign demand was a key driver of new order growth, with export sales rising to the greatest extent in over seven years in August. As a result, companies expanded their production schedules and buying activity, while business confidence rose to its highest for five months. However, stricter environmental policies were a key factor leading to longer delivery times, whilst inflationary pressures intensified as input costs and output charges both rose at faster rates.

The seasonally adjusted *Purchasing Managers' Index*™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – registered 51.6 in August, up from 51.1 in July to signal an improvement in overall operating conditions. The health of China's manufacturing sector has now strengthened in each of the past three months, with the latest upturn the strongest since February.

August survey data signalled a solid rise in total new work placed at Chinese manufacturers, with the rate of expansion the quickest seen for 37 months. A broad-based upturn in foreign demand was cited by panellists as a key driver of new order growth. This was highlighted by the sharpest increase in export sales since March 2010.

Sustained growth in new orders led firms to expand their production schedules again in August. Furthermore, the rate of growth was little-changed from July's five-month high.

Staff numbers continued on a downward trend in August, though the rate of job shedding softened since July. According to panellists, lower payroll numbers were due to efforts to raise efficiency, as well as the non-replacement of staff that left voluntarily. Nonetheless, a combination of lower employment and rising new work led to a further increase in outstanding business in August. Notably, the pace of accumulation was the quickest seen in the year to date.

Rising output requirements underpinned a further increase in buying activity during August. Notably the rate of increase was the fastest seen for just over three years. Greater purchasing activity contributed to a further rise in stocks of inputs, albeit only marginal. In contrast, inventories of finished items declined at the quickest rate since May 2016, which some panellists attributed to the fulfilment of new orders.

The average time taken for inputs to be delivered continued to lengthen in August. Moreover, the rate at which vendor performance deteriorated was the most marked since January, with a number of firms mentioning that stricter environmental policies had delayed lead times.

Average input costs rose to the greatest extent in five months in August. Survey respondents widely commented on higher prices for a broad range of raw materials in the latest survey period. Consequently, output prices rose at a solid pace that was the fastest in 2017 to date.

Key Points

- Stronger rise in total new work supported by quickest increase in export sales since early 2010
- Production levels continue to expand
- Inflationary pressures intensify

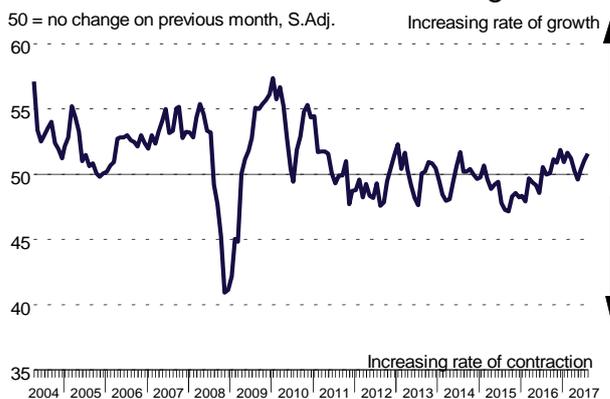
improved further as market demand strengthens, but if prices rise too quickly the profitability of companies in the middle of a supply chain may be under pressure."

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 rose 0.5 points to 51.6 in August, the second-highest reading of this year so far. It was also the third consecutive month that the index had posted in expansionary territory. Among the sub-indices: the output index dropped slightly but new orders continued growing. Both input costs and output prices rose further, with the latter hitting an eight-month high. Inventories of finished goods dropped further and at a faster pace, but stockpiles of procured goods continued expanding in August. Overall operating conditions of the manufacturing sector

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Sources: IHS Markit, Caixin.

For further information, please contact:

Caixin Insight Group

Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis
Telephone +86-10-8104-8016
Email zhongzhengsheng@cebm.com.cn

Ma Ling, Director of Communications
Telephone +86-10-8590-5204
Email lingma@caixin.com

IHS Markit

Annabel Fiddes, Principal Economist
Telephone +44-1491-461-010
Email annabel.fiddes@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone +65-6922-4226
E-mail bernard.aw@ihsmarkit.com

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: 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 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/product/pmi.

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