

Caixin China General Manufacturing PMI™

Weakest improvement in manufacturing operating conditions for seven months in April

Summary

Latest data indicated that Chinese manufacturers started the second quarter with a further slowdown in production and new business growth. Employment across the sector meanwhile declined at the fastest pace since the start of the year and input buying rose only slightly. At the same time, optimism towards the 12-month outlook was the weakest seen in 2017 so far. Cost pressures continued to ease from the peaks seen at the end of last year, and contributed to only a modest rise in prices charged.

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 50.3 in April, down from 51.2 in March to signal only a marginal improvement in overall operating conditions. Moreover, the latest upturn in the health of the sector was the weakest seen since last September.

Slower increases in output and new orders were key factors weighing on the headline index reading in April. Production growth softened for the second month running and rose only marginally overall. Total new business followed a similar trend, and rose at weakest pace since last September.

Softer growth in total new orders coincided with the slowest increase in new work from abroad in 2017 so far. While some companies indicated that new product launches contributed to higher new orders both at home and abroad, others commented that relatively muted customer demand had weighed on growth.

Manufacturers continued to reduce their workforce numbers at the start of the second quarter. Furthermore, the rate of payroll cuts was the fastest seen since January. According to anecdotal evidence, lower employment was due to cost-cutting initiatives as well as the non-replacement of voluntary leavers. This in turn contributed to a further increase in the level of work-in-hand (but not yet completed), though the rate of accumulation was modest.

Reflective of the trend for production, purchasing activity growth weakened to a marginal pace in April. At the same time, companies reported a renewed expansion in inventories of purchased items, albeit fractional. Stocks of finished goods were meanwhile depleted for the fourth successive month, with some firms mentioning the use of current stocks for satisfying new orders.

A shortage of some raw materials at vendors underpinned a further increase in average delivery times. That said, the extent to which lead times worsened remained marginal.

Cost pressures continued to ease in April, with the rate of input price inflation softening to a seven-month low. As a result, companies raised their prices charged at a modest rate that was the weakest since last August.

Looking ahead, companies generally expect output to increase over the next year. However, the degree of confidence was the lowest seen in 2017 so far and below the historical average.

Key Points

- Output and new orders both increase at softest rates since last September
- Staff numbers cut at quicker pace
- Business confidence weakens for second month running

Comment

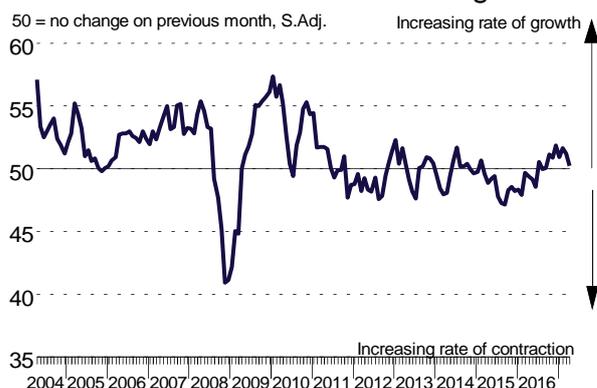
Commenting on the China General Manufacturing PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

"The Caixin China General Manufacturing PMI was down 0.9 points to 50.3 in April 2017, the lowest point since September.

The sub-indexes of output and new business both fell to the weakest levels since September, while the employment index dropped to the lowest in three months. Stocks of finished goods stayed in contraction territory and companies were rather reluctant to restock. The input prices index declined for the fourth straight month while the output prices index fell for the fifth month running, although both remained above the breakeven point of 50.

"The downward pressure on manufacturing gradually emerged in April, with all indicators weakening. The Chinese economy may be starting to embrace a downward trend in the near term as prices of industrial products decline and active restocking comes to an end."

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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: 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 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.

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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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