

Caixin China General Manufacturing PMI™

PMI signals renewed deterioration in operating conditions

Summary

Operating conditions faced by Chinese goods producers deteriorated for the first time in nearly a year in May. The fall in the headline index coincided with slower increases in output and new orders, while staff numbers were cut at a quicker rate. Subdued demand conditions underpinned a renewed fall in purchasing activity, albeit only slight, and the first increase in inventories of finished items in 2017 so far.

Latest data also signalled the first fall in input costs since last June, which in turn led manufacturers to lower their selling prices for the first time since February 2016.

The seasonally adjusted *Purchasing Managers' Index*™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted below the neutral 50.0 value at 49.6 in May. Although only indicative of a marginal deterioration in operating conditions, the index fell from 50.3 to signal the first decline in the health of the sector for 11 months.

Chinese manufacturers reported a further rise in production during May. That said, the pace of expansion was the weakest in the current 11-month sequence and only slight. Softer growth in output reflected a relatively muted increase in total new orders during May. Furthermore, growth in new order books was also the slowest seen since the current upturn began in July 2016. Data indicated that customer demand was relatively subdued both at home and overseas, with new export sales rising at a similarly marginal pace.

Confidence towards the year-ahead meanwhile remained weaker than the historical average, with the degree of optimism unchanged from April's four-month low.

At the same time, employment continued on a downward trend, with the rate of job shedding picking up slightly for the third month running. Notably, it was the quickest decline in workforce numbers seen since last September. Lower staffing levels were partly linked to company down-sizing initiatives, but also the non-replacement of voluntary leavers. As a result, outstanding business increased again in May and at the fastest pace this year so far.

Goods producers in China lowered their purchasing activity for the first time in 11 months in May, albeit only slightly. A number of panellists mentioned that weaker than expected sales had weighed on input buying. As a result, stocks of inputs declined and at the quickest pace since January. Subdued sales also contributed to a renewed increase in inventories of finished items.

Although purchasing activity fell in May, average delivery times continued to lengthen. A number of panellists blamed longer lead times on stock shortages at vendors.

Manufacturing companies reported the first decline in average cost burdens for nearly a year in May. The rate of reduction was marginal overall, and widely linked by respondents to lower raw material prices. Firms generally passed on any savings to clients, by cutting their output charges for the first time since February 2016.

Key Points

- Production and new orders both rise only slightly
- Employment declines at quickest pace since September 2016
- Renewed falls in both input prices and output charges

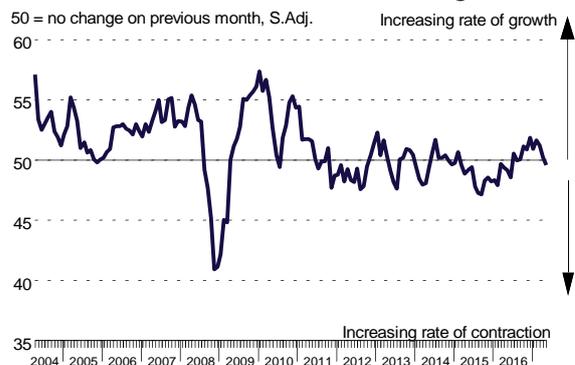
Comment

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 0.7 points to 49.6 in May, marking its first contraction in 11 months. The sub-indices of output and new business stayed in expansionary territory, but both fell to their lowest levels since June last year. The sub-indices of input costs and output prices dropped into contractionary territory for the first time since June 2016 and February 2016 respectively. The sub-index of stocks of purchases signalled a renewed decline, while the sub-index of stocks of finished goods

rebounded, indicating that companies have stopped actively restocking as inventories began to stack up. China's manufacturing sector has come under greater pressure in May and the economy is clearly on a downward trajectory."

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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 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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