

Caixin China General Manufacturing PMI™

Operating conditions deteriorate at fastest rate since March 2009

Summary

Chinese manufacturers saw the quickest deterioration in operating conditions for over six years in August, according to latest business survey data. Total new orders and new export business both declined at sharper rates than in July, and contributed to the most marked contraction of output since November 2011. Lower production requirements prompted companies to reduce their purchasing activity at the fastest rate since March 2009, while weaker client demand led to the first rise in stocks of finished goods in six months. Meanwhile, softer demand conditions contributed to marked falls in both input costs and output charges in August.

Adjusted for seasonal factors, the *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – registered at 47.3 in August, up slightly from the earlier flash reading of 47.1, but down from 47.8 in July. The PMI has now posted below the neutral 50.0 value for six successive months, with the latest deterioration in operating conditions the sharpest since March 2009.

August data signalled a second successive monthly fall in total new work placed at Chinese goods producers, with the rate of contraction quickening to a 17-month record. Panellists generally suggested that deteriorating market conditions had weakened client demand both at home and abroad during August. Furthermore, new export business declined at the steepest rate in just over two years.

Softer client demand led manufacturers to scale back their production again in August, with the latest reduction in output the quickest seen since November 2011.

Lower production requirements contributed to a further decline in purchasing activity in China's manufacturing sector in August. Moreover, the rate of reduction quickened since July to the steepest recorded since March 2009. As a result, stocks of inputs also fell over the month, albeit at a modest rate. In contrast, inventories of finished goods rose slightly in August, with a number of companies suggesting that fewer sales had led to an accumulation of post-production stocks.

Chinese manufacturing companies reduced their workforce numbers for the twenty-second month in a row in August. Furthermore, the rate of job shedding accelerated since July to a pace that was similar to June's 76-month record. Meanwhile, unfinished business increased for the fourth successive month, albeit only marginally.

Manufacturing firms in China signalled a further fall in total input costs in August, with a number of monitored companies linking the decline to lower raw material costs. The rate of input price deflation was solid overall, despite easing since July.

In line with the trend for cost burdens, Chinese goods producers reduced their factory gate charges in August, thereby extending the current sequence of deflation to 13 months. Anecdotal evidence suggested that firms lowered their tariffs in order to pass on lower input costs to clients, but also as part of efforts to attract new business.

Key Points

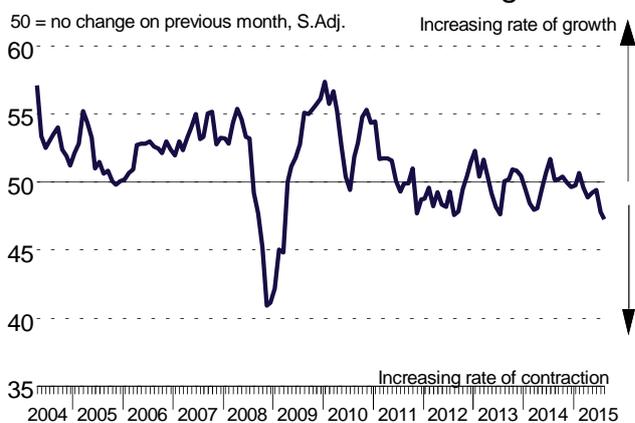
- Output contracts at quickest rate in 45 months as new business falls solidly
- Purchasing activity declines at sharpest rate since March 2009
- Input costs and output charges both fall at marked rates

Comment

Commenting on the China General Manufacturing PMI™ data, Dr. He Fan, Chief Economist at Caixin Insight Group said:

"The final Caixin China Manufacturing PMI for August continued to retreat, with sub-indices signalling continued weak demand in the markets for goods and factors of production. Recent volatilities in global financial markets could weigh down on the real economy, and a pessimistic outlook may become self-fulfilling. Macroeconomic regulations and controls must continue and fresh reform measures must be introduced. Fine-tuning should go hand in hand with speedier implementation of structural reform in order to release the full potential of growth and lead the market to confidence."

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Sources: 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 420 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@markit.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/economics.

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