

Caixin China General Manufacturing PMI™

PMI dips to five-month low in November

Summary

Chinese manufacturing sector operating conditions continued to improve in November, albeit at a marginal pace. Output and new orders both rose only modestly, leading to a softer expansion in buying activity. At the same time, companies faced a further sharp increase in average input costs, that led to a notable rise in selling prices. Efforts to cut costs contributed to another fall in staffing levels, with the rate of decline quickening to a three-month record.

Subdued growth in new work and a sustained fall in employment coincided with a reduction in business confidence towards the one-year outlook. Notably, firms expressed the joint-weakest degree of optimism on record.

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 50.8 in November, down from 51.0 in October. While remaining above the crucial 50.0 value, the index dipped to its lowest level for five months to signal only a marginal upturn in operating conditions.

Chinese goods producers continued to increase their production levels in November. Although the pace of expansion picked up slightly from October, the rate of growth was modest overall.

Total new orders rose at a similarly modest pace in November. Companies that registered higher new work commented on greater client bases and the launch of new products. Nonetheless, data indicated that client demand was relatively subdued across both the domestic and external markets, as new export sales also rose modestly.

As has been the case in each month since November 2013, staff numbers at Chinese manufacturers declined during November. Though modest, the rate of job shedding was the fastest seen in three months. As a result, companies registered a further increase in the amount of unfinished business at their units. The rate of backlog accumulation remained marked, despite softening since October.

Reflective of only modest growth in production, firms raised their buying activity marginally in November. At the same time, inventory levels of both purchased and finished items were little-changed from the previous month, as efforts to raise stock holdings at some firms were largely offset by more cautious inventory policies elsewhere.

Issues with logistics and stricter environmental policies added further pressure to supply chains in November. That said, the degree to which vendor performance deteriorated was the least marked for four months.

Difficulties in obtaining inputs alongside higher raw material prices in international markets underpinned a further sharp rise in input costs faced by Chinese manufacturers. As a result, companies raised their prices charged at a solid pace.

Relatively muted growth in new work coincided with weaker optimism towards the 12-month outlook for production. Notably, the degree of positive sentiment was the joint-weakest seen since the series began in April 2012.

Key Points

- Production and new orders both increase at modest rates
- Purchasing costs continue to rise sharply
- Confidence towards the business outlook drops to joint-lowest on record

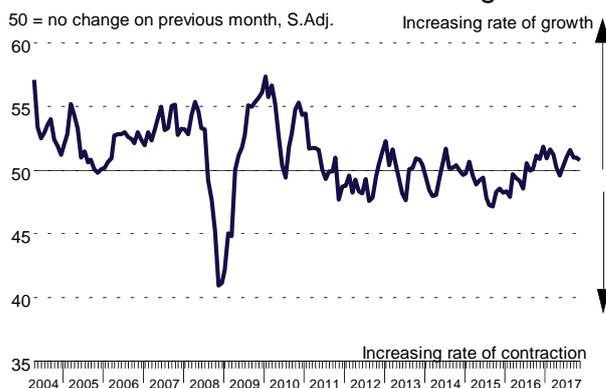
Comment

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

"The Caixin China General Manufacturing Purchasing Managers' Index (PMI) fell marginally from the previous month to 50.8 in November, but remained in expansion territory. The sub-index of output inched up, rising for the first time in four months, but the new orders sub-index declined. The increase in input prices moderated while the rise in output prices accelerated, with both maintaining rather quick rates of growth. Stocks of purchases turned around to increase as stocks of finished goods continued to diminish."

"For the most part, the manufacturing sector remained stable in November, although some signs of weakness emerged. In the fourth quarter, the economy is likely to maintain the stability observed since the start of the second half of the year. Economic growth in 2017 is expected to be higher than last year, but it may come under downward pressure in 2018."

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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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About PMI:

Purchasing Managers' Index[™] (PMI[™]) surveys are now available for over 40 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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