

# Caixin China General Manufacturing PMI™

Operating conditions stagnate in September

## Summary

Chinese manufacturers signalled stagnant operating conditions at the end of the third quarter, following improvements in the prior 15 months. Production growth eased to a marginal pace, while total new work was broadly unchanged from the previous month. New export business fell at the quickest rate since early 2016. At the same time, companies continued to reduce their headcounts, while subdued demand conditions led to more cautious approaches to inventories and buying activity.

Looking ahead, firms expressed the weakest level of optimism towards the 12-month business outlook in 2018 so far. Concerns continued to mount about the ongoing global trade frictions as well as the near-term impact of strict environmental policies.

The headline seasonally adjusted *Purchasing Managers' Index*™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – fell from 50.6 in August to the neutral level of 50.0 in September. This signalled no change in the health of China's manufacturing sector following improvements in each of the prior 15 months.

Although Chinese manufacturing output continued to rise in September, the latest expansion was only marginal and the weakest recorded for nearly a year. The slowdown in growth of production coincided with a broad stagnation in total new work received by goods producers. According to panellists, subdued market demand and reduced export sales had weighed on overall new business. Moreover, new export orders declined at the quickest rate since February 2016 amid a number of reports that the China-US trade war and subsequent tariffs had impacted foreign sales.

Companies reported a further fall in staff numbers, partly due to company restructuring plans and the non-replacement of voluntary leavers. Notably, the rate of job cuts was the quickest for 14 months. Concurrently, backlogs of work rose further, albeit at the weakest pace for a year.

Purchasing activity was left unchanged in September, which contrasted with greater input buying in the previous 15 months. Muted demand conditions meanwhile led firms to become more cautious towards their inventory holdings, with stocks of inputs rising only fractionally while inventories of finished goods fell for the fifth month in a row.

Suppliers' delivery times continued to lengthen amid reports of strict environmental policies and low stock levels among vendors. That said, the rate at which supplier performance deteriorated was the weakest for 16 months.

Average purchasing costs rose solidly in September, and was generally linked to supplier price hikes for raw materials and the impact of stricter environmental policies. However, efforts to boost competitiveness meant that selling prices rose only modestly.

## Key Points

- Production rises at weakest pace for nearly a year
- Total new business broadly stagnant, as export sales decline at faster rate
- Business confidence slips to nine-month low

*"Output charges and input costs both expanded at a slower rate in September but indicated that upward pressure on industrial product prices remained. The subindex for future output, which reflects manufacturers' production outlook over the next 12 months, stayed within positive territory but fell marginally, suggesting that business expectations were shocked somehow. Stocks of finished items contracted at a milder rate, while stocks of purchased items expanded at a slower pace, pointing to slightly negative inventory behavior. The subindex for suppliers' delivery times rose noticeably, although it failed to make it into positive territory, implying an improved capital turnover among goods producers due to credit easing."*

## Comment

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

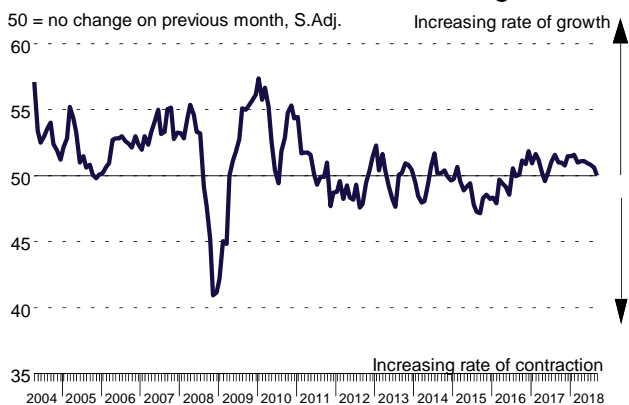
*"The Caixin China General Manufacturing PMI dipped to 50 in September, marking the fourth straight monthly drop and an acceleration in the index's decline."*

*"The subindex for new orders slid but remained in expansionary territory, indicating manufacturing demand weakened further. The subindex for new export orders stayed in contractionary territory and slipped to its lowest point since February 2016. The output subindex also dropped despite remaining in positive territory, showing that continuous weakening of demand has started to drag on manufacturers' production. The employment subindex slipped further into contractionary territory."*

*"Generally speaking, expansion across the manufacturing sector weakened in September, as exports increasingly dragged down performance and continued softening demand began to have an impact on companies' production. In addition, the employment situation worsened further. Downward pressure on China's economy was significant."*

Continued...

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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*<sup>™</sup> (*PMI*<sup>™</sup>) 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](mailto: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<sup>™</sup>, components of which include the Caixin China General Manufacturing PMI<sup>™</sup> and Caixin China General Services PMI<sup>™</sup>. These indexes are closely watched worldwide as reliable snapshots of China's economic health.

For more information, please visit [www.caixin.com](http://www.caixin.com) and [www.caixinglobal.com](http://www.caixinglobal.com).

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