

Caixin China General Manufacturing PMI™

Operating conditions improve for first time since February 2015

Summary

July survey data signalled a renewed upturn in operating conditions faced by Chinese manufacturers, with output, new orders and buying activity all returning to growth. However, employment continued to decline and at a solid pace, which in turn contributed to the quickest rise in outstanding business since March 2011. Meanwhile, increased prices for raw materials led to a marked rise in average input costs, which companies generally passed on to clients in the form of higher output charges.

At 50.6 in July, the seasonally adjusted *Purchasing Managers' Index*™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – rose from 48.6 in June to signal a renewed improvement in operating conditions. Though only slight, it was the first strengthening in the health of the sector since February 2015.

Driving the headline index higher in July was a renewed rise in total new business. Though moderate, it was the first time that overall new orders had increased since March. Respondents commented that new products and improved marketing strategies had boosted new business. Data indicated that growth in new work was largely due to stronger domestic demand, however, as export sales declined marginally at the start of the third quarter.

In response to improved inflows of total new work, manufacturers raised their production for the first time in four months. The rate of expansion, though modest, was the fastest seen in two years.

Despite the upturn in new orders, goods producers continued to lower their staffing levels in July. According to respondents, job shedding was largely driven by efforts to reduce costs and raise productivity. Furthermore, the rate at which employment fell was solid, despite easing to its weakest for six months. A combination of lower workforce numbers and higher amounts of new work led to a build-up in the level of work-in-hand for the fifth month in a row. Moreover, the rate of accumulation was the fastest seen since March 2011.

Higher production contributed to a renewed expansion in purchasing activity. Though modest, it was the first time input buying had increased since March. Subsequently, inventories of inputs rose over the month, and at a moderate pace. Meanwhile, stocks of finished goods increased for the first time since January, albeit fractionally, which some firms attributed to greater output.

Stronger demand for inputs added pressure to supply chains in July, with average delivery times lengthening for the fifth successive month. That said, the degree to which times increased was marginal.

After a slight drop in June, average input costs increased across China's manufacturing sector in July. Furthermore, the rate of inflation was the second-fastest since September 2013 (behind April 2016). According to respondents, higher prices for raw materials, particularly metals, had led to increased cost burdens. As a result, companies raised their prices charged and at a solid pace.

Key Points

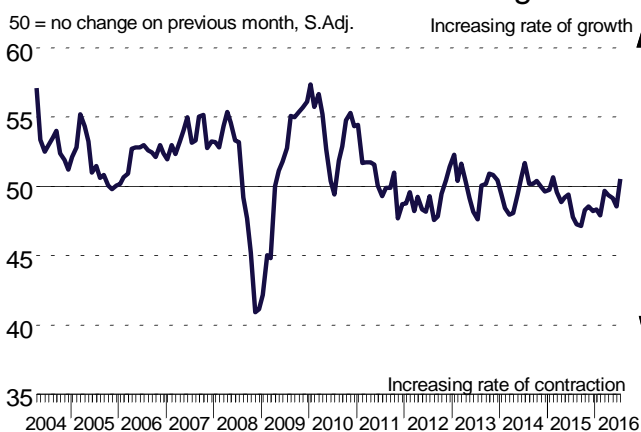
- Renewed expansions in output, new orders and purchasing activity
- Payrolls cut again and a solid rise in backlogs of work was recorded
- Marked increases in input costs and output charges

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 came in at 50.6 for July, up significantly by 2.0 points from the reading for June, marking the first expansion since February 2015. The sub-indexes of output, new orders and inventory all surged past the neutral 50-point level that separates growth from decline. This indicates that the Chinese economy has begun to show signs of stabilizing due to the gradual implementation of proactive fiscal policy. But the pressure on economic growth remains, and supportive fiscal and monetary policies must be continued."

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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@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.

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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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