

Caixin China General Manufacturing PMI™

Output rises at fastest pace since March 2011

Summary

Chinese manufacturers signalled an improvement in growth at the start of the fourth quarter, with output expanding at the quickest rate in over five-and-a-half years amid a rebound in new order growth. Stronger demand appeared to be led by improved domestic orders, however, as the level of new export sales fell slightly over the month. Meanwhile, companies cut their staff numbers at the slowest pace in 17 months, while backlogs of work continued to accumulate. Inflationary pressures picked up sharply in October, with input cost inflation accelerating to its fastest since September 2011 and output charges rising to the greatest extent since February 2011.

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 51.2 at the start of the fourth quarter, up from 50.1 in September. This signalled a moderate improvement in the health of the sector that was the greatest since July 2014.

Stronger growth in production supported the higher headline index reading in October. Furthermore, the latest increase in output was the fastest since early 2011. According to panellists, improved inflows of new work underpinned the expansion in production. This was highlighted by a further rise in total new orders in October, with the rate of growth quickening to a 27-month record. However, improved intakes in new work appeared to be driven by stronger domestic demand, as new export business declined slightly in October.

Despite increased production, stocks of finished goods increased only marginally during the latest survey period. According to respondents, the increased use of current inventories to meet new orders had dampened the overall rate of stock accumulation.

The trend in falling employment softened at the start of the fourth quarter. This was highlighted by the weakest decline in staff numbers since May 2015 during October. Companies that cut their workforce numbers generally commented on company down-sizing as part of efforts to reduce costs. This contributed to further pressure on operating capacity, as shown by the eighth successive monthly rise in backlogs of work.

Faster growth in new orders and output led firms to raise their purchasing activity over the month. The rate of expansion remained modest, however, despite quickening to a three-month high. At the same time, inventories of purchased goods declined, albeit marginally. Anecdotal evidence attributed the fall to the increased use of inputs to meet higher production schedules.

Chinese manufacturers signalled a sharp and accelerated increase in average cost burdens in October. Furthermore, it was the quickest rate of input price inflation for just over five years. Companies generally passed on greater production costs to clients by raising their output charges at a similarly sharp rate. Notably, it was the fastest rate of charge inflation since February 2011.

Key Points

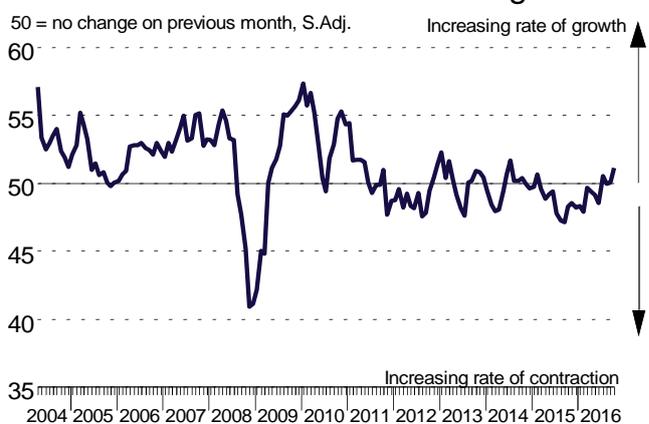
- Production expands at quicker pace as total new order growth accelerates
- Staff numbers declined at slowest rate since May 2015
- Firms see inflationary pressures pick up sharply

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 for October climbed to 51.2, up 1.1 compared to the previous month, marking the fastest growth seen in the sector in two years amid apparent signs of an improvement. The index readings for new orders and output for October were both much higher than in September, and those for input and output prices rose even more, indicating a return of inflationary pressure. The economy seems to be stabilizing for the moment, owing primarily to policies implemented to sustain growth. Supportive policies must be continued, or industrial output may be dragged down by a slowdown in investment.”

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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 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.

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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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