

Caixin China General Manufacturing PMI™

Operating conditions improve for first time in four months

Summary

China's manufacturing sector finished the opening quarter of 2019 on a positive note, with operating conditions improving for the first time since last November. Firms signalled slightly quicker rises in output and overall new work, while employment increased for the first time in over five years. Firmer demand conditions led to a softer fall in purchasing activity, while inventories of inputs rose slightly for the first time since last November. Average input costs rose slightly, though companies generally passed this on to clients in the form of higher selling prices. Sentiment regarding the 12-month business outlook improved to a ten-month high, amid hopes of further improvements in market conditions.

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 – posted 50.8 in March, up from 49.9 in February, to signal the first improvement in the health of China's manufacturing sector for four months. Although consistent with only a marginal pace of improvement, the index reading was the highest seen since July 2018.

Manufacturing production in China rose for the second month in a row in March. Though modest, the rate of increase was the quickest seen since last August. The upturn was supported by a stronger, albeit still relatively muted, rise in total new work. Furthermore, new export orders rose slightly after a fall in February.

Staffing levels at goods producers increased during March, to mark the first expansion since October 2013. Some firms mentioned hiring additional workers to support greater production and new business developments. Staff hiring also coincided with sustained signs of stretched capacity at manufacturers, as outstanding workloads continued to rise at a moderate pace.

Although purchasing activity continued to decline at the end of the first quarter, the rate of reduction was only slight. Inventories of finished goods also fell at a softer pace in March, contracting only marginally. Stocks of purchases meanwhile expanded slightly for the first time in four months.

Average lead times for inputs continued to lengthen during March, but the degree at which vendor performance deteriorated was marginal overall.

After declining in the prior three months, average input prices increased at the end of the first quarter. That said, the rate of inflation was only slight. Companies generally passed on higher input costs to clients by raising their selling prices modestly in March. Some firms also noted that firmer customer demand had enabled them to hike their charges.

Optimism towards the year-ahead outlook for production improved to a ten-month high in March, with a number of firms linking positive forecasts to expectations of further improvements to overall market conditions. Nonetheless, confidence remained below the long-run series trend.

Key Points

- PMI posts above the neutral 50.0 mark at 50.8
- Production and total new work both increase at quicker rates
- Employment expands for first time in over five years

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 50.8 in March, up from 49.9 in the previous month, indicating a notable improvement in the manufacturing industry."

"The subindex for new orders climbed to its highest level in four months, and the gauge for new export orders returned to expansionary territory, showing that both domestic and external demand rebounded moderately."

"The output subindex continued to rise in expansionary territory. The employment subindex surged to a high not seen since January 2013. Data from the National Bureau of Statistics

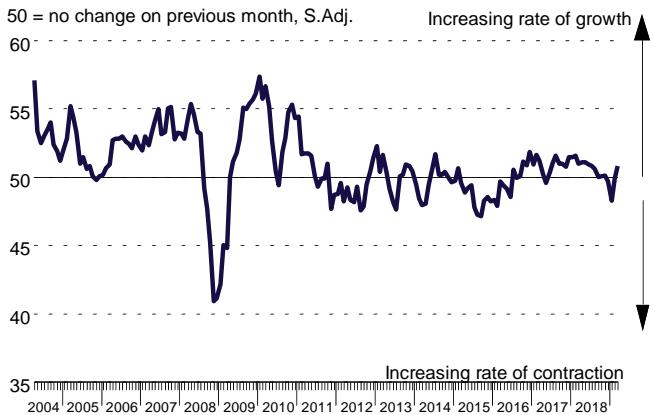
showed that the surveyed unemployment rate in urban areas for February was the highest since early 2017, causing concerns about the job market. The situation improved significantly in March, indicating easing pressure on employment."

"The measure for stocks of finished goods rebounded in March from the previous month's near-three-year low, but remained in contractionary territory. The subindex for stocks of purchases returned to expansionary territory, pointing to manufacturers' increasing willingness to restock. The subindex for suppliers' delivery times picked up despite staying below 50, indicating an accelerating capital turnover at companies."

"Both gauges for input costs and output charges edged up in to positive territory, with the latter posting a higher reading than the former, reflecting lower pressure from raw material costs. The producer price index might have risen faster year-on-year in March, and increased month-on-month, compared with a monthly decline in February."

"Overall, with a more relaxed financing environment, government efforts to bail out the private sector and positive progress in Sino-U.S. trade talks, the situation across the manufacturing sector recovered in March. The employment situation improved greatly."

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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 and www.caixinglobal.com.

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About PMI:

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