

Caixin China General Manufacturing PMI™

Operating conditions improve slightly in August

Summary

Operating conditions faced by Chinese manufacturers improved slightly in August, with firms registering the quickest increase in production for five months. New order intakes were meanwhile broadly stable, despite a faster decline in export sales. The improved production trend led firms to expand their purchasing activity further, while stocks of finished goods rose for the first time this year to date. Prices data showed a renewed fall in input costs contributed to a stronger decline in output charges. At the same time, sentiment regarding the 12-month outlook for output softened to a level that was among the lowest in the series history, with optimism dampened by worries over the future trading relationship of China and the US, as well as signs of weaker global 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 – rose from 49.9 in July to 50.4 in August, signalling a renewed improvement in the overall health of the sector. Though only marginal, it was the strongest improvement recorded since March.

Supporting the higher headline index reading was the quickest increase in production for five months. Though only slight overall, the expansion contrasted with broadly unchanged output in July and a reduction in June. This contributed to the first rise in stocks of finished goods in 2019 to date.

Companies often mentioned raising output due to signs of firmer demand conditions. After a marginal rise in July, total new work received by Chinese manufacturers was broadly stable during August. Data indicated that improved domestic demand helped to offset a further reduction in export sales. Notably, the latter fell at the quickest pace since last November.

Capacity pressures meanwhile persisted in August, as highlighted by a further increase in backlogs of work. The rate of accumulation was the quickest seen for just over a year. Improved order book trends and insufficient staff numbers were linked to the latest rise in outstanding workloads. Employment was broadly unchanged in August, following a modest reduction in July.

Buying activity rose slightly for the second month running, with some firms attributing this to rising output requirements. Stocks of purchases meanwhile fell marginally.

Average input costs fell across China's manufacturing sector in August amid widespread reports of reduced raw material prices. Though moderate, the rate of reduction was the joint-quickest since January 2016. Lower cost burdens and efforts to stimulate sales led firms to cut their output charges at a quicker pace in August, with the rate of discounting the steepest since December 2015.

Although firms generally anticipate output to increase over the next year, the degree of confidence weakened from July, largely due to concerns over the ongoing China-US trade dispute and signs of a slowing global economy.

Key Points

- Marginal expansion of output
- New orders broadly stable, despite further decline in export sales
- Output charges fall at quickest rate since December 2015

"The employment subindex jumped to a level only marginally lower than the 50-point mark that divides expansion from contraction, showing a relative improvement in labor market conditions.

"The subindex for stocks of purchased items fell further into negative territory, reflecting manufacturers' growing reluctance to replenish inventories. The subindex for suppliers' delivery times dropped further into decline, indicating that they have delayed deliveries even longer. The measure for stocks of finished goods rebounded into positive territory, suggesting growing inventories amid the improved production environment. However, it remains to be seen whether production will continue to improve.

"Although it remained in positive territory, the gauge for future output dropped, reflecting subdued confidence among manufacturers. We don't expect they will soon become more willing to invest. Both the measures for input costs and output charges dropped, implying that industrial prices were on a downward trend.

"China's manufacturing sector showed a recovery in August, mainly due to improved production activity. However, overall demand didn't improve, and foreign demand declined notably, leading product inventories to grow. There was no sign of an

Comment

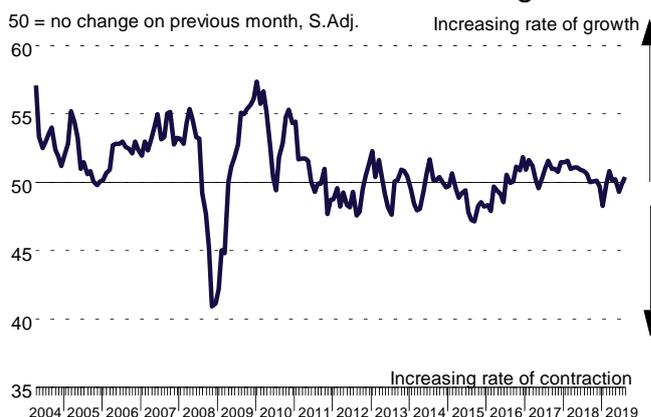
Commenting on the China General Manufacturing PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

"The Caixin China General Manufacturing PMI stood at 50.4 in August, up from 49.9 in the previous month, showing an improvement in the manufacturing sector.

"The subindex for new orders stayed in expansionary territory, but it inched down, suggesting flat demand for manufactured products. The gauge for new export orders remained in contractionary territory and fell to the lowest level this year in August, reflecting declining foreign demand amid an intensifying trade dispute between China and the U.S. The output subindex stayed in positive territory and rose further, pointing to increased production activity.

improvement in companies' willingness to replenish inventories of inputs or in their confidence. Industrial prices trended down. China's economy showed signs of a short-term recovery, but downward pressure remains a long-term problem. Amid unstable Sino-American relations, China needs to step up countercyclical policies."

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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:

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 <https://ihsmarkit.com/products/pmi.html>

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