

Caixin China General Manufacturing PMI™

PMI edges up to four-month high in July

Summary

Operating conditions faced by Chinese manufacturers improved at a slightly quicker pace in July. Companies indicated that both output and new orders rose at the fastest rates for five months, helped by a solid upturn in new export sales. At the same time, inflationary pressures ticked up, with both input prices and output charges rising at faster rates than in June. However, companies maintained a relatively cautious stance towards employment, with staff numbers falling again in July. This coincided with a subdued level of confidence towards the business outlook, with optimism towards the year ahead dipping to an 11-month low.

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 above the neutral 50.0 value at 51.1 in July, up from 50.4 in June. This signalled an improvement in the health of China's manufacturing sector for the second successive month, following a slight deterioration in May. Though marginal, the pace of improvement was the strongest seen for four months.

The uptick in the headline index was supported by a solid and accelerated increase in total new business. Furthermore, the rate of new order growth picked up to a five-month high in July. Panellists widely commented on an improvement in market conditions and strong foreign demand. Notably, new export sales increased at the second-fastest rate since September 2014.

In order to help meet greater client demand, companies raised output again in July. As was the case for new business, the rate of expansion was the strongest seen since February.

Although production and new orders increased, firms continued to adopt a relatively cautious approach to employment, with workforce numbers declining again in July. Furthermore, the rate of job shedding was the quickest seen for ten months. As a result, backlogs of work continued to increase and at a modest pace that was similar to that seen in June.

Chinese manufacturers raised their purchasing activity for the second month running, and at a quicker rate than in June. This contributed to a renewed increase in stocks of inputs, albeit marginal. A number of companies mentioned rebuilding their inventories due to stronger client demand. Meanwhile, stocks of finished items declined slightly, as some firms commented on using current inventories to fulfil new orders.

Average input costs increased at a solid pace that was the fastest for four months in July. A number of firms commented on greater raw material prices. As a result, companies raised their prices charged for the second successive month and at a faster rate than in June.

Optimism towards the 12-month business outlook weakened slightly in July. Notably, the degree of confidence dipped to its lowest since August 2016.

Key Points

- Output and total new orders expand at fastest rates since February
- New export sales increase at second-fastest rate for nearly three years
- Input price inflation accelerates to solid pace

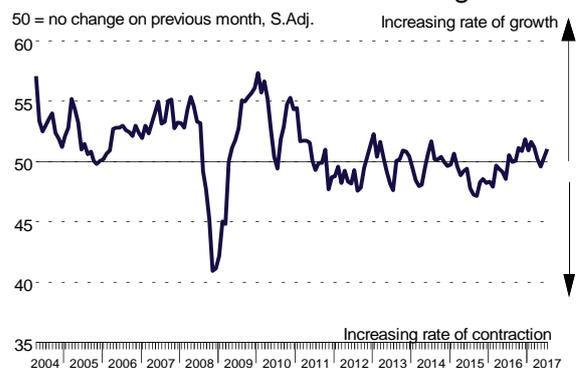
Comment

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 rose 0.7 points to 51.1 in July, the highest reading in four months. The sub-indices of output and new orders both rebounded further from May's recent lows. The sub-indices of input costs and output prices both continued to rise to hit four-month highs. Although the sub-index measuring stocks of finished goods remained in contraction territory and slid further, the sub-index showing quantity of purchases indicated the strongest rise in buying activity for five months, pointing to moderate growth in manufacturing production

going forward. Operating conditions in the manufacturing sector improved further in July, suggesting the economy's growth momentum will be sustained. That said, it's unlikely that financial regulatory tightening will be relaxed."

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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 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.

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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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