

Caixin China General Manufacturing PMI™

PMI signals modest improvement in operating conditions

Summary

China's manufacturing sector saw a modest improvement in overall operating conditions during September. Production and total new orders both expanded at quicker rates than in August, despite a further reduction in new export business. Staffing levels were broadly unchanged, however, leading to a stronger increase in backlogs of work. At the same time, firms expanded their buying activity and inventories, albeit at marginal rates. Currency movements meanwhile contributed to a renewed rise in average input costs, while prices charged were broadly stable after a two-month sequence of discounting.

Chinese goods producers continued to express a relatively subdued level of confidence towards future output, as worries persisted over the outcome of the ongoing China-US trade negotiations.

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 51.4 in September, up from 50.4 in August, to signal an improvement in the health of the sector for the second month running. Though modest overall, the pace of improvement was the quickest seen since February 2018.

The increase in the headline figure was partly driven by a faster rise in overall new work. The latest upturn in new orders, though modest, was the quickest since March 2018. Underlying data continued to signal that the increase was supported by firmer domestic demand, as new work from abroad continued to decline. That said, the latest reduction in new export orders was only slight. Companies often commented that the ongoing China-US trade dispute had continued to dampen foreign sales.

Higher volumes of total new work led firms to expand production again in September. The rate of growth was the fastest seen since August 2018.

Employment across China's manufacturing sector was broadly unchanged for the second month running. Stagnant payrolls and rising orders contributed to a further increase in the amount of outstanding business at Chinese goods producers. Notably, the rate of accumulation was the steepest seen since the start of 2018.

Latest data indicated that firms were relatively cautious towards buying activity and inventories. Although input buying rose for the third month running, the rate of growth remained marginal overall. As a result, stocks of purchased items also expanded only slightly. Stocks of finished goods rose marginally for the second month running.

After declining in August, average input costs rose at the end of the third quarter. The rate of increase was modest overall, with a number of panel members blaming the rise on unfavourable exchange rate movements and higher raw material costs. Output charges were meanwhile broadly unchanged compared to the previous month.

Optimism towards the one-year outlook for output remained relatively weak in September, with concerns over future trade conditions commonly cited by panel members.

Key Points

- Stronger increases in output and total new orders
- New export business continues to decline
- Backlogs rise at quicker pace as staffing levels remain broadly unchanged

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 Purchasing Managers' Index came in at 51.4 in September, up from 50.4 in the previous month, marking the highest reading since February 2018 and signaling a recovery in the manufacturing sector.

1) Both the subindexes for new orders and output increased from the previous month. New orders grew at the fastest pace since March 2018. The measure for new export orders improved from the previous month, but it remained in contractionary territory. Growth in manufacturing demand was

mainly driven by the domestic market as China-U.S. trade conflicts still restrained overseas demand.

2) The employment subindex remained the same as the previous month, coming in a bit lower than the line dividing expansion from contraction. Despite growth in new orders, employment did not grow. The gauge for backlogs of work increased to the highest since January 2018. As the labor market remains subdued, it's likely that there are structural issues in the labor market.

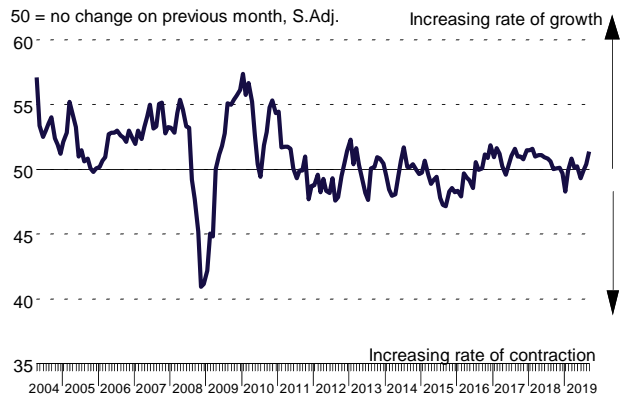
3) Both the measures for stocks of purchased items and stocks of finished goods rose marginally, indicating companies' cautious attitude toward stocking activities. The subindex for future output expectations increased, but it remained near a historic low, indicating subdued confidence among companies, which is negative for the recovery of manufacturing investment.

4) Both gauges for output charges and input costs rebounded, with input costs increasing at the fastest pace since November. The fluctuations in exchange rates and mutual tariff hikes between China and the U.S. were the main drivers of rising costs. The gauge for output charges rose slightly, but it remained in negative territory, reflecting that fierce market competition is negative for companies to improve their profitability.

Continued...

"The recovery in China's manufacturing industry in September benefited mainly from the potential growth of domestic demand. The trade conflicts between China and the U.S. had a notable impact on exports, production costs and confidence of enterprises. Compared with growth in new orders, the employment situation recovered only a bit, indicating that structural issues may exist in the labor market. Central policymakers have recently been emphasizing the strong growth in the domestic market. Faster construction of infrastructure projects, better implementation of upgrading the industrial sector, and tax and fee cuts are likely to offset the influence of the subdued overseas demand and soften the downward pressure on China's economic growth."

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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. For the purposes of this report, China is defined as mainland China, excluding Hong Kong SAR, Macao SAR and Taiwan.

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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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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