

Caixin China General Manufacturing PMI™

Manufacturing sector stagnates in August

Summary

Operating conditions stagnated across China's manufacturing sector during August, after a marginal improvement in the previous month. Production and total new orders both rose at slower rates, while export sales continued to decline. Job shedding meanwhile persisted, though the latest reduction in payrolls was the slowest seen in 2016 to date. This in turn contributed to a further rise in backlogs of work. Price pressures eased, with both input costs and prices charged increasing at weaker rates than seen in July.

The seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – fell from 50.6 in July to the no-change mark of 50.0 in August. This signalled stagnant operating conditions in the latest survey period, following an improvement in the health of the sector in the previous month.

Manufacturing production rose for the second successive month in August, though the rate of expansion waned from July's two-year high and was moderate. A number of panellists commented that output rose in line with new order growth. Reflective of the trend for production, total new business increased at a softer pace in August, and rose marginally overall. Data indicated that weak foreign demand continued to weigh on total new work, with export sales declining for the ninth month in a row during August (albeit marginally). There were also reports that relatively subdued market conditions had weighed on overall sales in August.

Manufacturers signalled sustained job shedding in August. Although the rate of payroll cuts eased to its weakest in the year to date, it remained marked overall, with a number of firms choosing to lower staffing levels as part of efforts to raise efficiency. Fewer staff and growth in new work contributed to a further rise in the level of outstanding business. That said, the rate of backlog accumulation was slower than seen in the previous month.

Goods producers raised their input buying during August to support higher production, though the rate of growth was only slight. Stocks of finished items meanwhile rose only fractionally, while cautious inventory policies led inventories of purchased goods to be broadly unchanged from the previous month.

Although demand for inputs increased, average supplier performance was little changed from the previous month in August. This contrasted with lengthening delivery times in each of the prior five months.

Latest survey data signalled increased average cost burdens during August, which marked the fifth time in six months that inflation has been reported. That said, the rate of increase was weaker than seen in July and only modest. Nonetheless, some companies chose to pass on their higher cost burdens to clients in the form of higher selling prices. The rate of charge inflation eased from the previous month, however, and was marginal overall.

Key Points

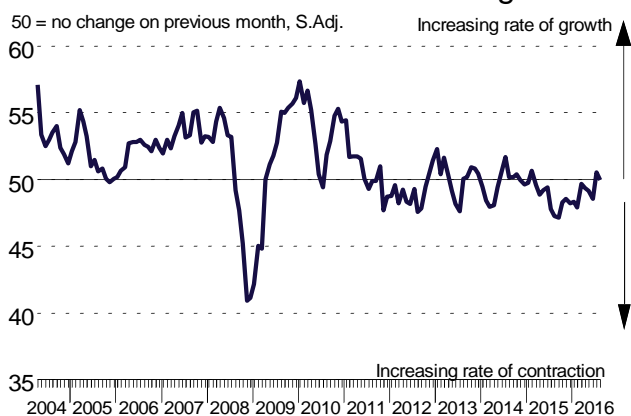
- Growth in output and new work eases
- Employment contracts again, albeit at slowest rate in 2016 to date
- Inflationary pressures weaken

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 August slipped to 50.0, after a short-lived uptick in July. The index readings for output, new orders and stocks of purchases all declined from the previous month, with the index for inventories of purchases falling back to the territory of contraction. The stagnation that follows tentative signs of recovery in July may have been caused by a temporary tightening of proactive fiscal policies. Downward pressure on China's economy remains and government support to stabilize growth must continue."

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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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