

Caixin China General Manufacturing PMI™

Operating conditions improve marginally

Key findings:

- Production broadly stable in May
- Total new work and export sales both increase slightly
- Renewed rise in purchasing activity

Chinese manufacturing firms signalled a further slight improvement in overall operating conditions during May. Total new work rose at a faster pace, supported by a renewed increase in export sales, while production was broadly stable. As a result, backlogs of work continued to expand, though firms retained a relatively cautious approach to staffing levels. Inflationary pressures remained subdued, with input costs rising only slightly while output charges were unchanged from the previous month. However, business confidence regarding the year ahead softened midway through the second quarter.

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 – registered 50.2 in May, unchanged from the previous month, to signal a further marginal improvement in the health of China's manufacturing sector. The headline PMI has now posted above the neutral 50.0 level in each of the past three months.

Underpinning the positive PMI figure was a further increase in total new orders placed with Chinese goods producers. The rate of new business growth quickened slightly since April, supported by a renewed increase in new export sales. According to panellists, new product releases and firmer foreign demand supported the expansion.

Production at Chinese manufacturers was meanwhile stable in May, following a slight increase in the previous

month.

The stronger rise in overall new business supported a renewed expansion in buying activity among Chinese manufacturing firms. Though only slight, it was the first time that purchasing activity had increased for five months. Inventories of inputs were broadly stable for the second month in a row. Meanwhile, greater usage of current stocks to fulfil new business reportedly underpinned a further decline in inventories of finished goods.

Companies retained a relatively cautious approach towards employment, noting a slight decline in staffing levels for the second successive month.

Higher new orders placed further pressure on capacity, as shown by an increase in backlogs of work during May. That said, the rate of accumulation remained marginal. Capacity pressures were also apparent at suppliers, with manufacturers noting longer lead times for purchased items for the fifth month in a row.

May data signalled only a marginal increase in average input costs faced by Chinese manufacturers. The rate of inflation remained notably softer than those seen this time last year. Factory gate prices were meanwhile unchanged from the previous month, with a number of firms commenting on competitive market pressures.

Business confidence slipped to the lowest level since the series began in April 2012 in May amid concerns of an escalating China-US trade war and forecasts of relatively subdued global demand.

Caixin China General Manufacturing Purchasing Managers' Index™ (PMI™)



About Caixin:

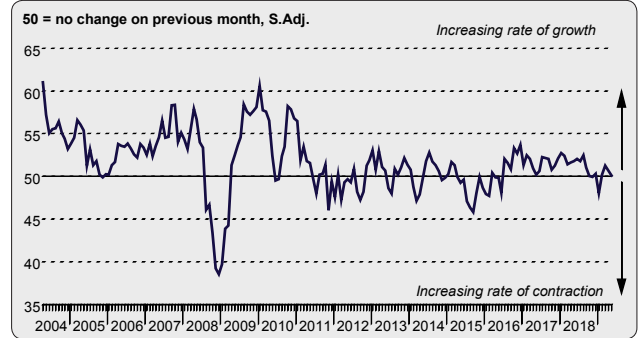
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Output Index

Q. Please compare your production/output this month with the situation one month ago.

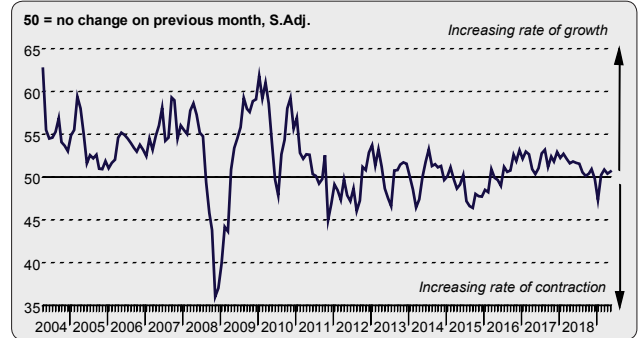
After rising slightly in April, production across China's manufacturing sector was broadly unchanged in May. This was signalled by the seasonally adjusted Output Index posting only fractionally above the neutral 50.0 level. While some firms raised production due to higher new orders, others commented on relatively subdued demand conditions.



New Orders Index

Q. Please compare the state of your new orders (in units) this month with one month ago.

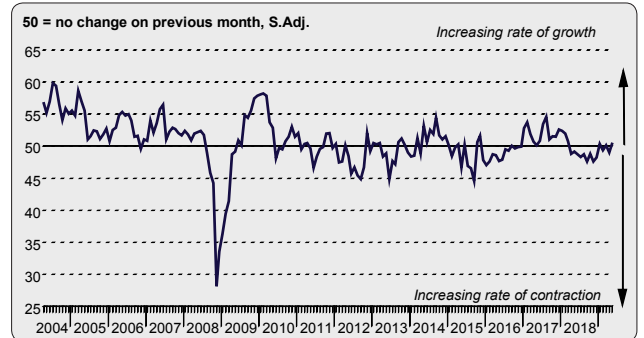
Latest data signalled a further increase in the amount of new work placed with Chinese manufacturers in May, thereby stretching the current sequence of growth to four months. However, the rate of expansion remained marginal. A number of panellists commented on steady client demand and new product launches. Sector data indicated that the upturn was driven by consumer goods makers.



New Export Orders Index

Q. Please compare the state of your new export orders (in units) this month with one month ago.

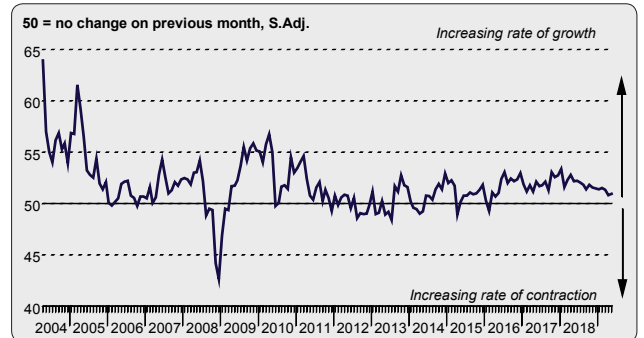
The seasonally adjusted New Export Orders Index moved above the neutral 50.0 level in May to signal the third increase in export sales in the past five months. Some monitored firms indicated that higher orders stemmed from firmer foreign demand and new product releases. However, there were also mentions of tough competition and more challenging trading conditions.



Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with one month ago.

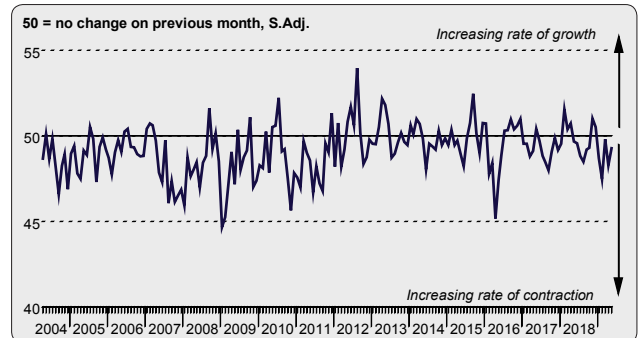
Manufacturing companies operating in China signalled increased amounts of backlogged work for the thirty-ninth month in a row in May. Anecdotal evidence suggested that increased inflows of new orders had placed further pressure on operating capacities midway through the second quarter. That said, the rate of accumulation was similar to that seen in April and only slight.



Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

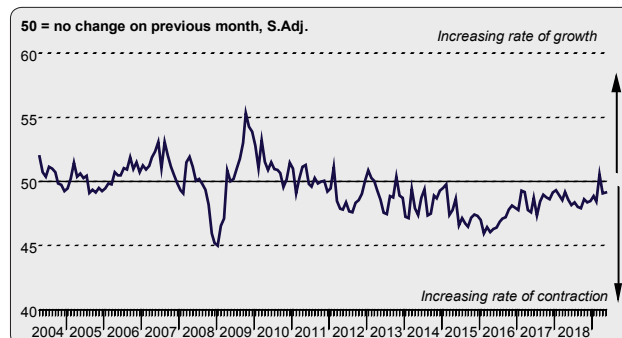
As has been the case since January, Chinese goods producers registered lower stocks of finished items in May. However, the pace of depletion softened to a marginal rate. The latest drop in inventories was often linked by panellists to the greater usage of current stock to fulfil orders. Data broken down by sector shows that inventories fell across all three market groups.



Employment Index

Q. Please compare the level of employment at your unit this month with the situation one month ago.

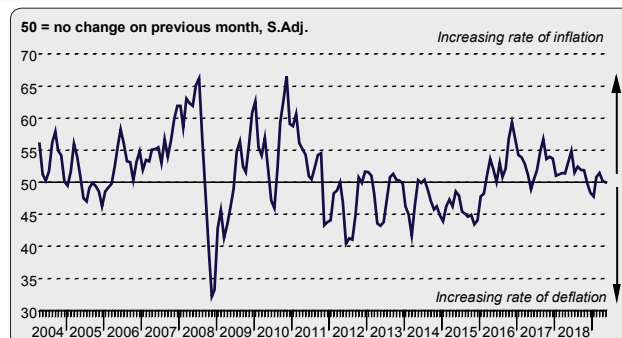
Company downsizing policies and the non-replacement of voluntary leavers reportedly drove a slight reduction in manufacturing workforce numbers in May. Employment has now fallen continuously since November 2013, with the sole exception of March 2019. Staffing levels fell at intermediate and investment goods makers, but were broadly stable at consumer good producers.



Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

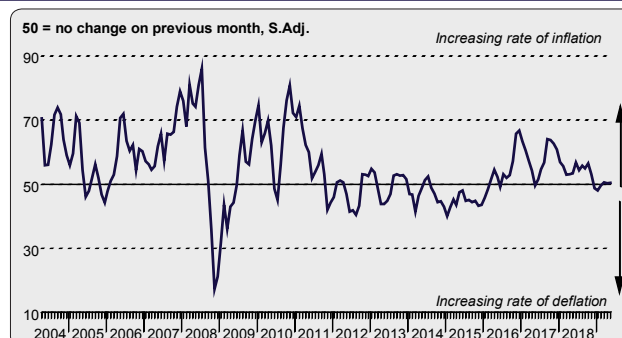
After increases in each of the prior three months, Chinese factory gate prices were unchanged in May. While some companies raised their output charges due to higher input costs, others cut theirs in response to increased market competition and subdued client demand.



Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

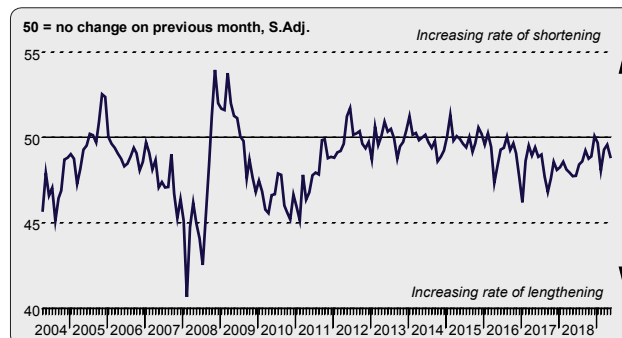
Average input costs faced by manufacturers in China increased marginally for the third successive month in May. Notably, the rate of inflation remained much weaker than the long-run series average. Companies that registered higher purchasing costs often linked this to a general increase in market prices for raw materials.



Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.

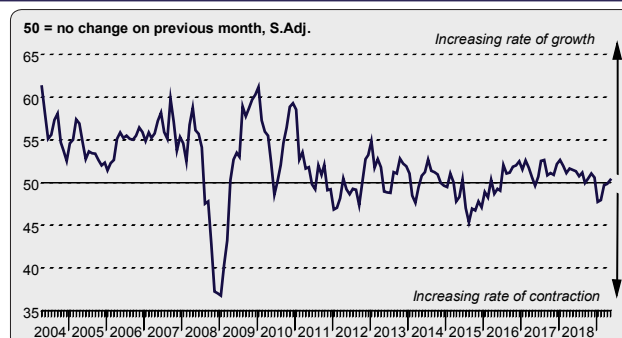
Latest survey data signalled sustained pressure on supply chains across China's manufacturing sector, as highlighted by a further lengthening of suppliers' delivery times. Lead times for inputs have now increased in each of the past five months, though the latest deterioration was marginal. There were some reports that supply shortages had hampered vendor performance.



Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

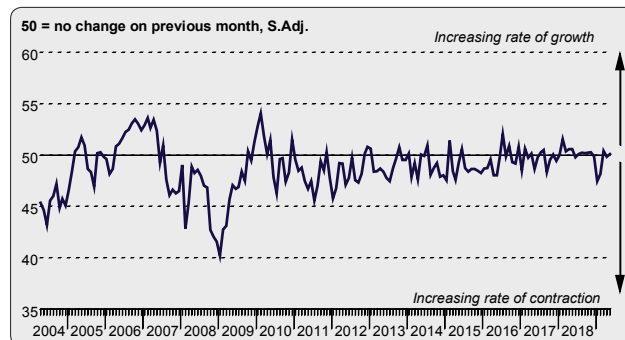
The seasonally adjusted Quantity of Purchases Index signalled the first increase in buying activity for five months in May. That said, the rate of expansion was weaker than the series average and only slight. According to anecdotal evidence, purchasing activity rose in line with inflows of new work.



Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.

Adjusted for seasonal variation, the Stocks of Purchases Index indicated that inventories of purchased items were broadly stable for the second month running in May. A number of monitored companies mentioned maintaining relatively cautious stock holding policies midway through the second quarter.



Future Output Index

Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

Chinese manufacturers expressed the weakest degree of optimism towards the one-year outlook for production since the series began in April 2012 in May. The ongoing China-US trade dispute, restrictive state policies, a weak automotive market and generally subdued global demand conditions were all cited as key factors likely to weigh on production over the next year. Firms that were optimistic generally commented on new product releases and ongoing plans to expand operating capacities.



Notes on Data and Survey Methodology

The Caixin China General Manufacturing PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 industrial companies. The panel is stratified by company size and by 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'.

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.

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. The PMI is designed to show a convenient single-figure summary of the health of the manufacturing sector.

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> or contact: economics@ihsmarkit.com