

Caixin China General Manufacturing PMI™

Operating conditions improve at quickest pace since February 2017

Summary

October data showed the strongest improvement in operating conditions faced by Chinese manufacturers since February 2017. Output and new orders both expanded at steeper rates, with the latter supported by a renewed increase in export business. As a result, companies increased their purchasing activity, and at the quickest pace for 20 months. However, efforts to contain costs contributed to a further drop in staffing levels, which underpinned another solid increase in outstanding business. Prices charged by manufacturers meanwhile fell slightly due to competitive market pressures, while cost burdens rose only slightly.

Business confidence regarding the 12-month outlook for output improved to its highest since April, with a number of firms optimistic that market conditions will strengthen.

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 51.4 in September to 51.7 in October. The index has now signalled an improvement in operating conditions for three months running, with the latest improvement the strongest seen since February 2017.

Total new work received by Chinese goods producers rose solidly in October, with the rate of expansion the quickest recorded for 81 months. Companies commented on firmer underlying market conditions and improved client demand both at home and abroad. Notably, new export business increased for the first time in five months, albeit marginally.

Greater amounts of incoming new work prompted manufacturers to expand production again in October. The upturn in output was solid overall, with the rate of growth the quickest since December 2016.

In contrast, staffing levels declined further, with the rate of job shedding quickening since September. A number of firms mentioned this was due to the non-replacement of voluntary leavers and efforts to contain costs. As a result, capacity pressures persisted, as highlighted by a solid increase in outstanding business.

Improved client demand led firms to expand their purchasing activity, with the rate of growth the quickest since February 2018. This contributed to a further rise in stocks of inputs, albeit marginal. Inventories of finished goods meanwhile declined amid reports of the greater use of stocks to fulfil orders.

Average suppliers' delivery times increased again in October, with some firms blaming this on the impact of stricter environmental protection policies.

Factory gate prices in China fell slightly at the start of the fourth quarter as firms sought to remain competitive. At the same time, average cost burdens rose only marginally.

Manufacturers expressed the strongest degree of positive sentiment towards the one-year outlook for output since April. However, confidence remained subdued in the context of historical data.

Key Points

- New orders expand at quickest rate since January 2013
- Output growth accelerates to solid pace
- Employment declines again; outstanding work rises further

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 51.7 in October, up from 51.4 in the previous month and marking the fastest pace of expansion since February 2017. This pointed to a continued improvement in the manufacturing industry.

"Both domestic and foreign demand improved substantially. The subindex for new orders stayed in positive territory and rose to the highest level since January 2013. The gauge for new export orders returned to expansionary territory and

reached the highest point since February 2018, due likely to

the U.S.' move to exempt more than 400 types of Chinese products from additional tariffs.

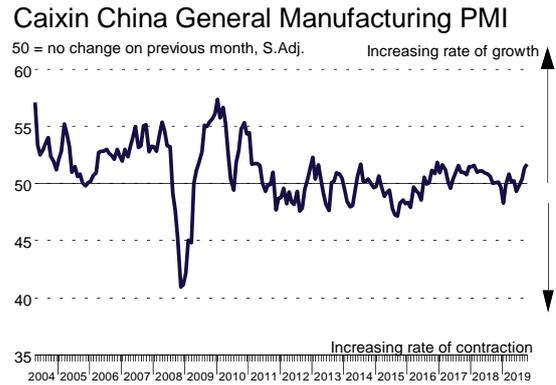
"Production growth accelerated further. The output subindex stayed in positive territory and rose for the fourth straight month, hitting the highest level since December 2016. As new orders grew at a faster pace in October, the measure for stocks of finished goods dipped into contractionary territory.

"The labor market contracted further. The employment subindex dropped to the lowest level in 13 months. As China's demographic dividend is fading, there has been pressure on growth of the labor force.

"The subindex for suppliers' delivery times fell further into negative territory. Delivery delays to some extent implied bottlenecks in production capacity and stocks of finished goods, and also reflected manufacturers' subdued confidence. The subindex for stocks of purchased items edged slightly lower, indicating a cautious attitude towards replenishing inventories. Both the measures for input costs and output charges dipped slightly, suggesting that prices of industrial products were stable in general.

Continued...

"China's manufacturing economy continued to recover at a relatively quick pace in October. New orders placed with companies improved substantially, and new export orders rose at the fastest pace since the Sino-U.S. trade war broke out. However, business confidence has been weak. Deliveries of inputs were further delayed. Inventory activities were subdued. The employment sector continued to contract. If the improvement in demand, including that generated by infrastructure projects and exports, is able to continue, the manufacturing sector can gradually build a foundation for stability."



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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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