

Caixin China General Manufacturing PMI™

Operating conditions deteriorate at a slower pace in October

Summary

Operating conditions faced by Chinese goods producers continued to deteriorate in October, albeit at the weakest rate in four months. Total new business declined only modestly, helped in part by a renewed increase in new export orders. This in turn contributed to softer contractions of output and employment in October. Meanwhile, purchasing activity and inventories of inputs continued to fall amid reports of lower production requirements. Widespread evidence of reduced raw material costs led to a further marked decline in cost burdens, which in turn were passed onto clients in the form of lower selling prices.

Adjusted for seasonal factors, the *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted 48.3 in October, up from 47.2 in September. Operating conditions have now worsened in each of the past eight months, though the latest deterioration was the weakest since June.

Total new business placed at Chinese goods producers declined for the fourth month in a row in October. That said, the rate contraction eased since September's recent record and was only modest. Softer domestic demand appeared to be a key factor weighing on overall new work as new export business increased for the first time since June, albeit marginally.

Nonetheless, a further decline in overall new orders led firms to cut their production schedules again in October. However, the rate of reduction also eased since September and was moderate overall.

Manufacturing employment declined in October, thereby extending the current sequence of job shedding to two years. That said, the rate of reduction was the weakest seen in three months. Anecdotal evidence suggested that some companies cut their payroll numbers as a result of company down-sizing policies and the non-replacement of voluntary leavers. Lower staffing levels and reduced output contributed to the sixth successive monthly increase in unfinished business. However, the rate of backlog accumulation remained marginal overall.

As has been the case since July, Chinese manufacturers cut back on their purchasing activity in October. Furthermore, the rate of reduction was little-changed since September and marked overall. This led to a further modest fall in inventories of purchases in October.

Meanwhile, fewer sales led to an increase in stocks of finished goods for the third successive month, though the rate of accumulation weakened to a marginal pace.

Average cost burdens in China's manufacturing sector fell for the fifteenth straight month in October. Despite easing since September, the rate of deflation remained sharp. Panellists overwhelmingly linked lower input costs to reduced prices for a broad range of raw materials, with metals mentioned in particular. As part of efforts to boost customer demand, companies generally passed on their savings in the form of lower selling prices. Moreover, the pace of discounting remained solid overall.

Key Points

- Production falls at the weakest rate in four months
- Total new work contracts at slower pace amid improvement in new export order intakes
- Input costs and output prices continue to decline at marked rates

Comment

Commenting on the China General Manufacturing PMI™ data, Dr. He Fan, Chief Economist at Caixin Insight Group said:

"The Caixin China General Manufacturing PMI for October is 48.3, up 1.1 points from the reading for September. The slight upswing shows the manufacturing industry's overall weakening has slowed down, indicating that previous stimulating measures have begun to take effect. Weak aggregate demand remained the biggest obstacle to economic growth, and the risk of deflation resulting from the continued fall in the prices of bulk commodities needs attention."

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Sources: Markit, Caixin.

For further information, please contact:

Caixin Insight Group

Dr. He Fan, Chief Economist
Telephone +86-10-8590-5001
Email fanhe@caixin.com

Ma Ling, Director of Communications
Telephone +86-10-8590-5204
Email lingma@caixin.com

Markit

Annabel Fiddes, Economist
Telephone +44-1491-461-010
Email annabel.fiddes@markit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@markit.com

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 420 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@markit.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/economics.

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