

Caixin China General Manufacturing PMI™

Manufacturing PMI edges down to five-month low in February

Summary

Operating conditions faced by Chinese goods producers continued to deteriorate in February. Output and total new orders both declined at slightly faster rates than at the start of 2016, which in turn contributed to the quickest reduction in staffing levels since January 2009. Lower production was a key factor leading to the steepest fall in stocks of finished goods in nearly four-and-a-half years during February. At the same time, lower intakes of new work enabled firms to marginally reduce their level of work-in-hand for the first time in ten months. Prices data indicated weaker deflationary pressures, with both selling prices and input costs declining at modest rates.

The seasonally adjusted *Purchasing Managers' Index*™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted at 48.0 in February, down from 48.4 at the start of the year, and its lowest reading for five months. Operating conditions have now worsened in each month for the past year. That said, the rate of deterioration remained modest overall.

Manufacturing companies in China signalled a further fall in production during February. Though modest overall, the latest reduction was the quickest seen since September 2015. Companies that reported lower output generally cited weak market conditions and reduced intakes of new work. Furthermore, total new business declined for the eighth month in a row, albeit at a modest pace that was similar to January. New export work fell for the third month in a row, albeit at a softer pace.

Staff numbers declined at the sharpest rate since January 2009 during February. Companies that recorded lower headcounts widely commented on company downsizing policies as part of cost-cutting initiatives, along with the non-replacement of voluntary leavers. Despite lower employment, manufacturers were able to work through outstanding business during February. Though marginal, it was the first reduction in the level of work-in-hand since April 2015.

Lower production requirements led Chinese manufacturers to cut their purchasing activity again in February. The rate of reduction was modest overall, despite quickening since the start of the year. Consequently, stocks of inputs declined further, though the rate of depletion was similar to that seen throughout the current eight-month sequence and moderate. Stocks of finished goods also declined in February and at the quickest rate since September 2011. According to panellists, lower output and the delivery of goods to clients had reduced inventory holdings.

Prices charged by Chinese manufacturing firms continued to decline in February. That said, the rate of discounting was the slowest seen in nine months. A number of respondents mentioned cutting their tariffs due to increased competition for new work and to pass on lower input costs to clients. The rate of input cost deflation also slowed in February to the weakest for 18 months.

Key Points

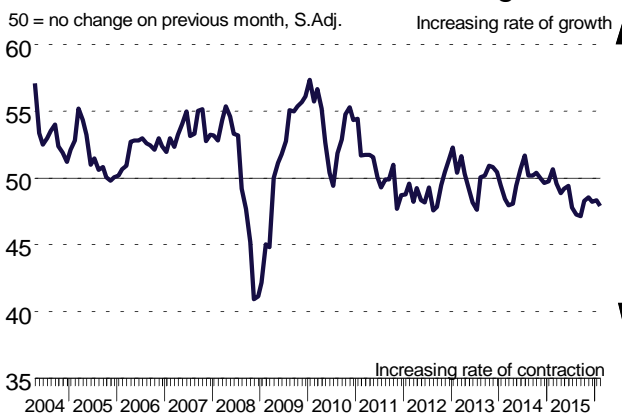
- Output declines at steepest rate since last September as new work contracts further
- Payroll numbers are cut at fastest pace since the start of 2009
- Stocks of finished goods fall at quickest rate since September 2011

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 February is 48, down 0.4 points from the previous month. The index readings for all key categories including output, new orders and employment signalled that conditions worsened, in line with signs that the economy's road to stability remains bumpy. The government needs to press ahead with reforms, while adopting moderate stimulus policies and strengthening support of the economy in other ways to prevent it from falling off a cliff."

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Sources: 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 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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