

Caixin China General Manufacturing PMI™

Operating conditions deteriorate at slowest pace in 13 months

Summary

March survey data pointed to only a fractional deterioration in operating conditions faced by Chinese manufacturers. A renewed expansion in total new order books led to the first increase in output for a year. However, firms continued to cut their staff numbers, with the rate of job shedding easing only slightly from February's seven-year record. Companies also maintained relatively cautious stock policies, with inventories of inputs and finished goods both falling again in March. Meanwhile, companies signalled renewed inflationary pressures as both input costs and prices charged rose for the first time since July 2014, albeit 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 – registered 49.7 at the end of the first quarter, up from 48.0 in February. Despite remaining below the crucial no-change 50.0 value, it was the highest index reading in 13 months and signalled only a fractional deterioration in the health of the sector.

Manufacturing production in China increased for the first time in a year during March, albeit at a marginal pace. Higher output was supported by a renewed rise in total new work. As was the case for output, however, the rate of expansion was marginal. Some companies commented on an improvement in underlying client demand. Weak foreign demand remained a drag on new order growth, however, with new export business falling for the fourth month in a row.

Chinese goods producers continued to cut their payroll numbers at the end of the first quarter. The rate of job shedding eased only slightly since February's post-recession record and was solid overall. Lower employment was generally attributed to company downsizing policies that were implemented to cut costs. Higher new orders and lower staff numbers both contributed to a slight increase in the level of work-in-hand (but not yet completed) in March.

The upturn in new workloads prompted firms to raise their purchasing activity for the first time since June 2015. That said, the rate of growth was marginal overall. Despite higher input buying, stocks of purchases continued to decline in March, albeit at the slowest rate in nine months. Companies generally linked lower inventories to ongoing stock adjustments. Post-production goods also fell in March, and at a modest pace.

Manufacturers reported the first increase in average input costs for 20 months in March. The rate of inflation was modest overall, with a number of monitored firms commenting on higher raw material prices. In line with higher production costs, companies raised their prices charged in March. Though the rate of increase was only moderate, it was the first time that charge inflation has been recorded since July 2014.

Finally, vendor performance deteriorated in March, with some companies citing stock shortages at vendors. That said, the rate at which times lengthened was only slight.

Key Points

- Output and total new business both expand slightly
- Employment continues to fall solidly
- Renewed inflationary pressures

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 March came in at 49.7, up 1.7 points from the reading for February. All categories of the index showed improvement over the previous month. The output and new order categories rose above the neutral 50-point level, indicating that the stimulus policies the government has implemented have begun to take hold. However, considering that current conditions remain uncertain, the government needs to continue with moderate stimulus measures to reinforce market confidence."

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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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