

# Caixin China General Manufacturing PMI™

Manufacturing PMI edges down to three-month low

## Summary

The health of China's manufacturing sector continued to decline in May, with output and new orders both falling slightly. At the same time, job shedding persisted across the sector, with the rate of reduction remaining close to February's post-global financial crisis record. Weak demand conditions underpinned further falls in both purchasing activity and inventory holdings in May. Inflationary pressures appeared to cool slightly, however, with input prices and output charges both rising at weaker rates.

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 – dipped to 49.2 in May, down from 49.4 in April, and below the neutral 50.0 value for the fifteenth successive month. That said, the PMI reading remained consistent with only a marginal deterioration in the health of the sector overall.

Weighing on the headline index was a renewed fall in total new business placed at Chinese manufacturers in May. Though fractional, it was the first reduction in new work for three months. According to panellists, poor market conditions had led to a drop in client demand in the latest survey period. New export orders also fell in May, with the latest reduction the quickest seen in three months and moderate overall.

Reflective of weak demand conditions, companies trimmed their production schedules fractionally for the second month in a row.

Payroll numbers at Chinese manufacturers continued their downward trend in May. Moreover, the rate of job shedding remained similar to February's multi-year record and was solid. Panellists that noted lower staff numbers generally commented on efforts to raise efficiency through down-sizing policies and the non-replacement of voluntary leavers. At the same time, backlogs of work rose only slightly in May, as has been the case in each of the past three months.

Purchasing activity fell for the second successive month in May, though the rate of reduction eased since April and was marginal. Meanwhile, tighter inventory policies persisted in May, with a number of monitored firms commenting on weaker client demand and lower production schedules. Stocks of finished items fell at a much slower pace than in April, however, while inventories of inputs fell modestly.

Although purchasing activity fell, average suppliers' delivery times continued to lengthen in May. Longer lead times were generally linked by respondents to stock shortages at suppliers.

May data signalled a third successive monthly increase in cost burdens. That said, the rate of inflation eased since April and was modest overall. Some panellists commented that higher raw material prices had raised total input costs. In line with the trend for cost burdens, average output charges increased at a modest pace in May, following a solid rise in the previous month.

## Key Points

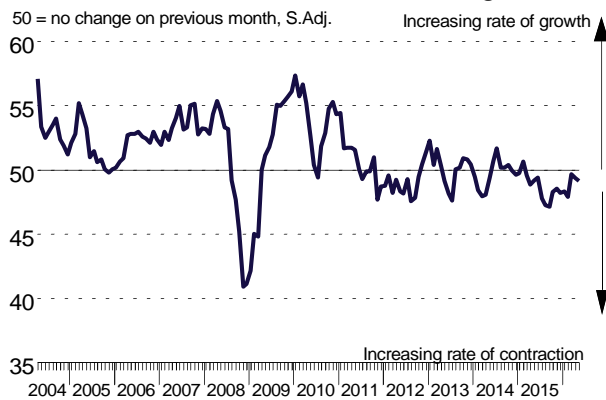
- Output declines fractionally
- Total new work falls for first time since February, as new export work contracts at faster pace
- Employment continues to fall markedly

## 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 for May came in at 49.2, down 0.2 from April's reading, marking the second consecutive monthly decline. Readings for the output and new order categories fell again, but employment improved slightly. Overall, China's economy has not been able to sustain the recovery it had in the first quarter and is in the process of bottoming out. The government still needs to make full use of proactive fiscal policy measures accompanied by a prudent monetary policy to prevent the economy from slowing further."*

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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 500 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](mailto: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](http://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](http://www.markit.com/economics).

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