

Caixin China General Manufacturing PMI™

Manufacturing production growth picks up in February

Summary

Chinese manufacturing companies saw a stronger improvement in overall business conditions in February, with output and total new orders both rising at faster rates than at the start of the year. The latest upturn in new work was supported by the fastest increase in new export business since September 2014. At the same time, employment declined at only a marginal pace that was the slowest seen in two years. Despite easing since January, the rate of input price inflation remained sharp which prompted firms to raise their prices charged. Looking ahead, manufacturers signalled the strongest degree of optimism towards future output growth since May 2015.

At 51.7, the seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – picked up from 51.0 in January and signalled an improvement in overall business conditions for the sixth month in a row. Though modest overall, the latest improvement was the joint-second strongest for just over four years.

February survey data pointed to a further rise in Chinese manufacturing production, with the rate of expansion picking up from that recorded in January. That said, the rate of growth was moderate overall and below those seen through the final quarter of 2016. Supporting higher production was a further rise in total new business. According to latest data the upturn in new work was partly driven by stronger growth in new export sales. Furthermore, new orders from abroad increased at the quickest pace since September 2014.

Companies continued to report lower staff numbers in February, as has been the case in each month since November 2013. That said, the rate of job shedding was the slowest seen for two years. Higher new orders and lower staffing levels contributed to a modest rise in unfinished business in February.

Improved new order inflows led to a further increase in purchasing activity. Furthermore, the rate of expansion edged up to its strongest since July 2014. As a result, stocks of purchases returned to growth in February, albeit rising at only a marginal pace overall. In contrast, stocks of finished items declined slightly for the second month in a row, which a number of firms linked to the delivery of products to clients.

Strong demand for inputs led to a further lengthening of delivery times in February, though at a modest rate.

Average input costs rose sharply in the latest survey period, despite the rate of inflation easing to a four-month low. According to respondents, higher raw material costs were the key driver of inflationary pressures. As part of efforts to protect their margins, firms increased their output charges again in February and at a solid pace.

Optimism towards the one-year business outlook reached a 21-month peak in February. Confidence was generally linked by respondents to new product developments and improving market conditions.

Key Points

- New business increases at faster pace amid solid upturn in new export sales
- Employment declines at softest rate in two years
- Input cost inflation eases to four-month low but remains sharp

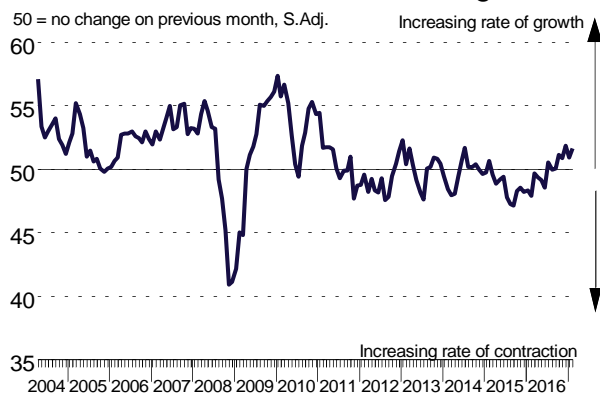
Comment

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 was 51.7 in February, up 0.7 points from the previous month and the joint-second highest in four years. The output and new orders sub-indices rebounded from a month ago. Stocks of purchases returned to expansion, but stocks of finished goods continued to decline. It remains to be seen whether the restocking by manufacturers can be sustained. Input and output prices continued to rise rapidly, but at slower rates compared with the previous month. The Chinese

manufacturing economy continued to recover in February. But it is premature to jump to the conclusion that the recovery is entrenched. The second quarter is likely a key period to look at for future trends."

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Sources: IHS 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@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.

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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/product/pmi.

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