

Caixin China General Manufacturing PMI™

Manufacturing sector expands slightly in June

Summary

The PMI climbed back into positive territory in June, with firms noting slightly stronger increases in production and new orders. This prompted companies to increase their purchasing activity, albeit only slightly. However, relatively muted client demand overall led manufacturers to reduce their inventory holdings and trim their workforce numbers again. At the same time, optimism towards the business outlook edged down to its lowest level in 2017 to date.

After declining in the previous month, both input costs and output charges increased at the end of the second quarter. That said, the rates of inflation were much slower than seen at the beginning of the year.

At 50.4 in June, the seasonally adjusted *Purchasing Managers' Index*™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – moved back above the 50.0 no-change mark. This was up from 49.6 and signalled an improvement in the health of the sector after a marginal deterioration in May. Operating conditions have now strengthened in nine of the ten past months, though the latest improvement was only slight.

Helping to lift the headline PMI was faster growth in new order books. Though only marginal, the latest increase in new orders was the quickest seen for three months. New work from overseas also rose only slightly in June, as panellists noted relatively subdued demand both in domestic and international markets. As a result, production rose at a slightly faster (albeit still marginal) pace at the end of the second quarter.

Relatively subdued customer demand also weighed on optimism towards the 12-month business outlook, with confidence edging down to a six-month low in June.

Efforts to cut costs and boost efficiency were partly behind a further fall in staff numbers in June. That said, the rate of job shedding eased to a modest pace that was the weakest since March. Subsequently, firms signalled further strain on operating capacity, as highlighted by a sustained increase in backlogs of work. The rate of accumulation softened slightly since the previous month and was moderate overall.

After a decline in May, purchasing activity undertaken by manufacturers in China increased slightly at the end of the second quarter. However, companies adopted relatively cautious attitudes towards their inventories, with both stocks of inputs and finished items declining in the latest survey period.

The time taken for inputs to be delivered continued to lengthen in June. Though only slight, the rate of deterioration was the fastest seen for four months.

Average input costs faced by Chinese manufacturers increased during June, following a slight reduction in May. According to panellists, greater cost burdens largely reflected higher raw material prices. The rate of increase was modest, however, and much weaker than January's recent peak. Output charges followed a similar trend, and rose slightly after a decline in the previous month.

Key Points

- Marginal increases in production and new orders
- Backlogs of work continue to rise as staff numbers cut again
- Modest increase in input costs

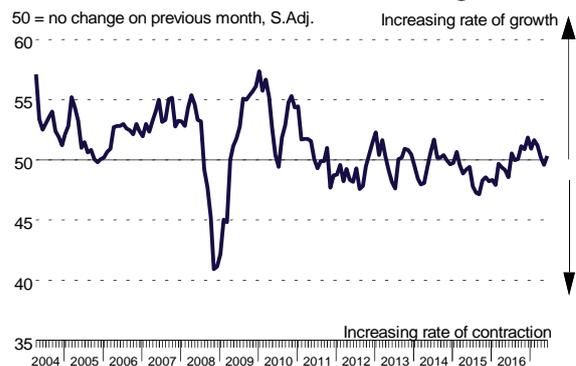
inventory trends and confidence around future output, the June reading was more like a rebound, with an economic downtrend likely to be confirmed later."

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 stood at 50.4 in June, up from 49.6 in the previous month, as manufacturing activity expanded. Sub-indices for output and new orders rose marginally from the previous month, while input and output prices showed renewed increases in June, in which input prices rose at a faster pace. However, sub-indices for stocks of purchases and stocks of finished goods were both in contraction territory, signaling that businesses are more cautious in restocking. The manufacturing sector recovered slightly in June, but based on the

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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 IHS 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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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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