

Caixin China General Manufacturing PMI™

Operating conditions improve at quickest pace for four months

Summary

The headline PMI pointed to a stronger improvement in Chinese manufacturing operating conditions at the end of 2017. Latest data highlighted faster growth of output, total new work and export sales. Greater production led to a further rise in buying activity, with the rate of growth quickening to a four-month high. At the same time, capacity pressures continued to build, with backlogs rising amid a further decline in workforce numbers (albeit marginal). Inflationary pressures remained elevated, with input costs rising sharply and prices charged increasing at a solid pace.

Optimism towards the business outlook picked up slightly from November's joint-record low, but remained weak in the context of historical data.

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 51.5 in December, up from 50.8 in November, to signal a further improvement in the health of the sector. Though modest, the rate of strengthening was the highest seen for four months.

Manufacturing production continued to increase across China at the end of 2017. Notably, the rate of expansion quickened to a three-month record. Improved sales and stronger underlying market demand were cited as key sources of growth in December. Furthermore, total new orders expanded at the steepest pace since August, with export sales also rising at a faster pace at the end of the year.

Despite stronger increases in output and new work, manufacturers continued to shed staff in December. That said, the rate of job losses was the weakest seen for nine months and marginal. Nonetheless, lower staff numbers contributed to another rise in outstanding business, with the rate of accumulation quickening slightly since November.

Higher production prompted firms to raise their buying activity for the seventh month running. Moreover, the rate of growth was the fastest seen since August. However, stock shortages at suppliers and delays linked to environmental inspections led to a further lengthening of average delivery times.

Firms commented on using existing inventories of finished items to satisfy new orders, which led to a slight reduction in inventories of finished goods. Stocks of purchases also fell in December, albeit marginally.

Average input costs continued to rise sharply, despite the rate of inflation softening to a four-month low. Anecdotal evidence indicated that higher costs for a variety of raw materials drove up cost burdens. Consequently, firms increased their selling prices solidly.

Sentiment towards the 12-month business outlook picked up slightly from November's joint-record low, but remained well below the historical series average. According to panellists, forecasts of relatively subdued client demand and changes to national policies had dampened confidence at the end of 2017.

Key Points

- Stronger increases in output and new orders
- Employment declines only slightly
- Confidence towards the year-ahead remains historically weak

Comment

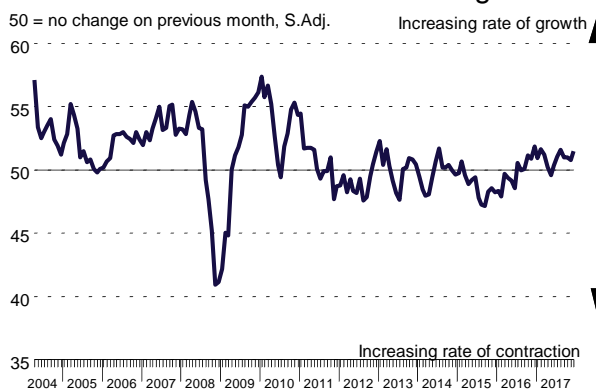
Commenting on the China General Manufacturing PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

"The Caixin China General Manufacturing Purchasing Managers' Index rose to 51.5 in December, the highest since August. Stronger increases in both output and new orders were seen in December compared to the previous month. Growth in input prices eased to a four-month low, while growth in output prices slowed marginally. Stocks of finished goods shrank again in December, and stocks of purchases declined slightly.

"Manufacturing operating conditions improved in December,

reinforcing the notion that economic growth has stabilized in 2017 and has even performed better than expected. However, we should not underestimate downward pressure on growth next year due to tightening monetary policy and strengthening oversight on local government financing."

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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 applied: 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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About PMI:

Purchasing Managers' Index[™] (PMI[™]) surveys are now available for over 40 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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