

Caixin China General Manufacturing PMI™

Output growth hits 13-month high in January

Summary

China's manufacturing sector continued to expand at the start of 2018, with production rising to the greatest extent in just over a year. Growth was supported by further, albeit slightly softer, increases in total new work and new export sales. Higher production requirements led firms to increase their buying activity, while employment fell at the weakest pace for nearly three years. Capacity pressures meanwhile persisted, with backlogs of work rising to the greatest extent since early-2011. Prices data showed that input cost inflation eased to a five-month low and factory gate charges rose only slightly.

Looking ahead, companies were generally optimistic that output would rise over the next year. Moreover, the degree of confidence strengthened to a four-month high.

The seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – was unchanged from December's reading of 51.5 in January, to signal a further modest improvement in overall operating conditions. The health of the sector has now strengthened in each of the past eight months, while the pace of improvement was slightly stronger than the long-run trend.

January data signalled a solid and accelerated increase in Chinese manufacturing output, with the rate of growth the strongest since December 2016. A number of companies mentioned that improving demand conditions and rising new work led them to raise output. Notably, total new orders rose for the nineteenth month in a row, albeit at a moderate pace that was weaker than in December. Growth in new export sales also softened to a similarly modest pace.

Employment continued to decline in January, which was partly linked to company downsizing policies. That said, the rate of job shedding was the weakest since February 2015. At the same time, rising new order volumes exerted further pressure on operating capacity. Notably, outstanding business increased at a solid pace that was the quickest since March 2011.

In line with higher output, manufacturing companies in China continued to raise their purchasing activity in January. However, the time taken for purchased items to be delivered continued to increase.

Stocks of finished goods declined slightly as firms made greater use of current inventories to fulfil new and existing orders. Stocks of purchases were meanwhile unchanged after a slight drop in December.

The rate of input price inflation softened to a five-month low in January, but remained sharp overall. Companies commonly linked higher costs to greater prices for raw materials such as metals and packaging. At the same time, output charges rose at the weakest pace since June 2017.

Business optimism about the year ahead strengthened to a four-month record in January. Positive expectations were supported by forecasts of improving market conditions, promotional activities and new product launches.

Key Points

- Production rises at quickest pace in over a year...
- ...but total new work and export orders both expand at softer rates
- Inflationary pressures subside

"However, overall new business and new export orders increased at a slower pace than in the previous month, pointing to slightly moderating demand.

"Meanwhile, the upward pressure on prices of industrial products eased markedly as the increases in both input costs and output prices slowed sharply.

Comment

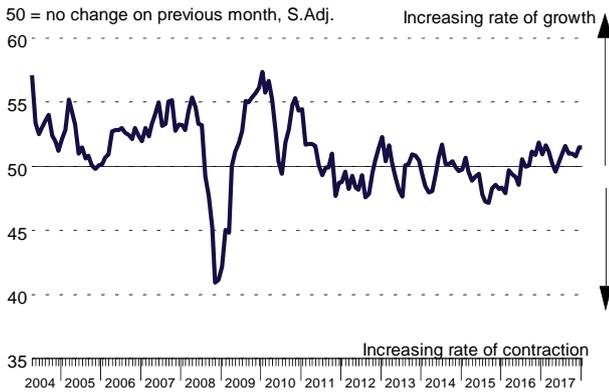
Commenting on the China General Manufacturing PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

"The Caixin China General Manufacturing Purchasing Managers' Index came in at 51.5 in January, unchanged from the previous month, suggesting that operating conditions continued to improve at a modest pace.

"The sub-indices of output and employment continued to rise, reflecting improving production conditions. The sub-indices of stocks of purchases and stocks of finished goods both improved from December's relatively low levels.

"The manufacturing industry had a good start to 2018. Going forward, we should keep a close eye on the stability of the demand side."

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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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