

Caixin China General Manufacturing PMI™

Production rises slightly in December

Summary

Chinese manufacturing production increased slightly at the end of 2018, after stagnating in the prior two months. However, there were signs of softer demand conditions, as total new orders fell marginally, and companies reduced their output charges for the second month running. The latter was supported by the first drop in input costs for just over a year-and-a-half.

Looking ahead, business confidence was relatively subdued, and companies reduced their headcounts for the sixty-second month running.

The headline seasonally adjusted Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – fell from 50.2 in November to 49.7 at the end of 2018, to signal a renewed deterioration in overall operating conditions. Though only slight, it was the first time that the health of the sector worsened since May 2017.

After stagnating in the prior two months, production rose slightly during December. Notably, the rate of expansion was much softer than those seen earlier in 2018.

Concurrently, latest data signalled a renewed fall in total new work received by Chinese manufacturers during December. Although the pace of reduction was fractional, it was the first time that new orders had fallen since June 2016. A number of surveyed companies mentioned that relatively subdued market conditions had hampered sales. New export business meanwhile fell for the ninth month in a row, albeit at a softer pace than in November.

Efforts to reduce operating costs alongside decisions to not replace voluntary leavers meant that manufacturing employment in China continued to fall in December. The rate of job shedding was modest and similar to that seen in November. At the same time, unfinished workloads continued to increase, with some firms mentioning difficulties with production equipment.

Firms expanded their purchasing activity for the third month running, though the rate of growth remained marginal. Some firms indicated that buying activity rose due to forecasts of rising costs in 2019. Inventories of inputs were meanwhile little-changed from the previous month, while stocks of finished goods rose slightly.

December data indicated that pressures on supply chains eased, as vendor performance stabilised following a 27-month period of deterioration.

Average input costs fell for the first time in just over a year-and-a-half at the end of 2018. Though modest, the rate of reduction was the quickest since February 2016. At the same time, reports of a general drop in market prices led firms to discount their output charges for the second month in a row.

Confidence towards the 12-month outlook for production edged up to a three-month high, but remained subdued overall. Concerns largely stemmed from softer client demand and restrictive national policies around production.

Key Points

- Renewed expansion of output...
- ...but overall new business falls for first time in two-and-a-half years
- Input costs decline for first time since May 2017

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 dipped to 49.7 in December, the first time since May 2017 that the reading has been below 50, the mark that separates expansion from contraction.

"The subindex for new orders slid below the breakeven point of 50 for the first time since June 2016, reflecting decreasing demand in the manufacturing sector. Although the gauge for new export orders remained in contractionary territory, its reading rose marginally in December. That showed external demand remained subdued due to the trade frictions between China and the U.S., while domestic demand weakened more notably.

"The employment subindex edged up but remained in contractionary territory. The output subindex rose slightly to above 50, but was still near its lowest level in three years. The drag of weak demand on production may gradually become more evident. Stocks of finished goods increased at a slower pace while stocks of purchased items declined, pointing to companies' growing intention to destock, which may in future disrupt the stability of the manufacturing sector's output.

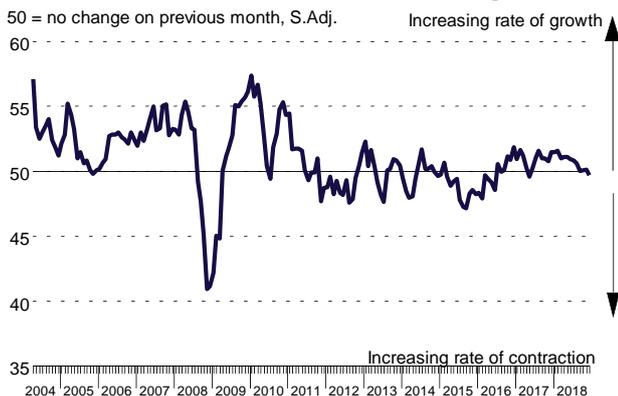
"The subindex for suppliers' delivery times rose above 50 for the first time since August 2016, implying an improvement in manufacturers' cash flow. That was probably due to recent government policies to support the financing needs of small and midsize companies, and the State Council's requirement that government agencies and major state-owned enterprises pay the overdue debts they owed to private enterprises.

"Output charges declined at a quicker rate, while input costs fell for the first time since May 2017 in line with the weakening domestic commodities market and plummeting oil prices. The fall in year-on-year growth of the producer price index is likely to accelerate.

"In general, China's manufacturing sector faced weakening domestic demand and subdued external demand in December. Companies had a stronger intention to destock and prices of industrial products were declining, which could further drag on production. It is looking increasingly likely that the Chinese economy may come under greater downward pressure."

Continued...

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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 and www.caixinglobal.com.

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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 <https://ihsmarkit.com/products/pmi.html>

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