

Caixin China General Manufacturing PMI™

Manufacturing sector performance subdued at start of 2019

Summary

Latest survey data signalled subdued overall operating conditions in the Chinese manufacturing sector at the start of 2019. Production and total new work were both slightly down at the start of the year, despite a renewed increase in export orders. Relatively muted demand conditions underpinned the first fall in purchasing activity for 20 months, while firms also registered lower inventories of both purchased and finished items.

On a positive note, employment levels fell at the weakest rate for nine months, while confidence towards the business outlook was at its highest since May 2018.

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 – posted 48.3 at the start of 2019, down from 49.7 in December, to point to a continued softening in the health of China's manufacturing sector. The latest PMI reading was the lowest since February 2016.

After rising slightly at the end of last year, Chinese manufacturing production weakened in January. According to panellists, softer demand conditions led companies to revise their production schedules. That said, the rate at which output fell was only modest. January's survey indicated a generally subdued trend in total new work placed with Chinese goods producers. Underlying data indicated that weakness largely stemmed from muted domestic demand, as new work from abroad rose slightly at the start of the 2019.

Workforce numbers at manufacturing firms in China fell only slightly in January. Furthermore, the rate of reduction was the slowest seen for nine months. At the same time, companies reported a further modest increase in the amount of outstanding orders.

The softer fall in employment was accompanied by a slight improvement in business confidence. Notably, sentiment regarding the 12-month business outlook was at its most positive since May 2018. Some firms anticipate new products and planned company expansions to boost output over the next year.

Purchasing activity weakened in January, driven by a softer trend in overall new order intakes. That said, the pace of decline was modest. Manufacturers also adopted a relatively cautious approach to inventories, as firms reduced their holdings of both stocks of purchases and finished items at the start of 2019.

After broadly stabilising at the end of 2018, average suppliers' delivery times increased across China's manufacturing sector in January. That said, the rate at which times lengthened was only slight.

In contrast to the marked increases seen through most of 2018, average input costs faced by Chinese manufacturers fell for the second month running. According to panellists, lower cost burdens were due to reduced prices for raw materials. At the same time, output charges also fell in January, amid reports of a general drop in market prices.

Key Points

- Underlying trend in production weakens
- Export sales increase slightly, but overall new work softens
- Business confidence at eight-month high

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 fell further to 48.3 in January, the lowest since February 2016.

"The subindex for new orders dipped further into contractionary territory, pointing to a moderate contraction in demand across the manufacturing sector. Yet the gauge for new export orders rose notably above the 50 level, the dividing line that separates contraction from expansion, reaching its highest point since March 2018, showing that companies' export orders have obviously rebounded since the truce in the China-U.S. trade war.

"The output subindex dropped, highlighting the drag effect of softer demand on production. The employment subindex continued to rise moderately despite staying in negative territory, which could be due to the effect of government

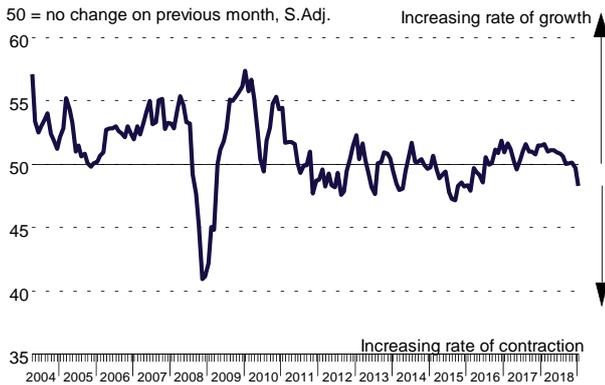
policies to stabilize the job market. The measure for stocks of finished goods fell into contractionary territory, while the subindex for stocks of purchased items dropped further, suggesting that manufacturers tended to reduce their inventories. The subindex for suppliers' delivery times returned to negative territory, indicating that pressure on capital turnover, though less than in the months before December, still existed.

"Both gauges for input costs and output charges dropped only slightly. While companies have reduced their inventories, prices of domestic industrial products have since the start of the month recovered some of the losses seen in December. We expect that year-on-year growth in the producer price index is likely to slide closer to zero.

"On the whole, countercyclical economic policy hasn't had a significant effect. While domestic manufacturing demand shrank, external demand turned positive and became a bright spot amid positive progress in Sino-U.S. trade talks. As companies were more willing to reduce their inventories, their output declined, indicating notable downward pressure on China's economy. China is likely to launch more fiscal and monetary measures and speed up their implementation. Yet the stance of stabilizing leverage and strict regulation hasn't changed, which means the weakening trend of China's economy will continue."

Continued...

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Sources: IHS Markit, Caixin.

For further information, please contact:

Caixin Insight Group

Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis
Telephone +86-10-8104-8016
Email zhongzhengsheng@cebm.com.cn

Ma Ling, Director of Communications
Telephone +86-10-8590-5204
Email lingma@caixin.com

IHS Markit

Annabel Fiddes, Principal Economist
Telephone +44-1491-461-010
Email annabel.fiddes@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone +65-6922-4226
E-mail bernard.aw@ihsmarkit.com

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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