

# Caixin China General Manufacturing PMI™

Operating conditions improve at slower pace in January

## Summary

Latest data signalled a further improvement in the health of China's manufacturing sector at the start of 2017. However, the rate of improvement slowed since December, as output and new orders increased at weaker rates amid a further reduction in employment. In contrast, new export work rose at the fastest pace since September 2014. At the same time, inflationary pressures remained sharp, with both input costs and output charges increasing at rates scarcely seen throughout the past five years. Nonetheless, companies remained optimistic towards future growth prospects, and expressed the highest degree of optimism towards the 12-month business outlook since July 2016.

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 51.0 in January to signal a further improvement in the health of the sector. However, the reading was down from December's 47-month record of 51.9, and was consistent with only a marginal rate of improvement.

Manufacturers reported a further rise in client demand during January, as highlighted by a sustained increase in new orders. That said, the rate of expansion slowed since December's recent peak and was moderate overall. This was despite a renewed upturn in new export business, which increased at a solid pace that was the fastest since September 2014.

Reflective of the trend in total new orders, production increased at a softer pace in January. Furthermore, it was the slowest expansion in output since last September.

Efforts to cut down on costs contributed to a further decline in overall manufacturing employment during January. The rate of job shedding quickened slightly to its strongest for three months, but remained moderate overall. A lack of personnel and higher new orders led to a further increase in the amount of backlogged work.

With production rising at a softer pace, growth in purchasing activity also slowed in January. However, vendor performance continued to deteriorate amid reports of issues with transportation. Furthermore, average lead times increased at the quickest pace since February 2011.

Latest data pointed to renewed destocking activities, with inventories of purchased items falling modestly after a slight increase in December. At the same time, stocks of finished goods declined for the first time since June 2016 at the start of the year.

On the prices front, Chinese manufacturers faced a further steep increase in input costs, with the rate of inflation easing only slightly from December's recent peak. As a result, companies raised their prices charged for the eleventh successive month. Though solid, the rate of increase was the slowest seen in the past four months.

Chinese goods producers remained upbeat towards the 12-month outlook for production, with the overall degree of positive sentiment reaching a six-month high at the start of 2017.

## Key Points

- January sees weaker increases in production and new orders...
- ... despite rebound in new export business
- Inflationary pressures soften slightly but remain sharp

*"The Chinese economy maintained stable growth in January. But the sub-indices showed that the current growth momentum may be hard to sustain. We must remain wary of downward pressures on the economy this year."*

## 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 was 51.0 in January, down 0.9 points from the previous month and lower than the average level in the fourth quarter last year. The sub-indices for output and new orders both weakened sharply from those in the preceding month, while stocks of purchases and finished goods both slid into contraction territory. Manufacturers appear to have become rather reluctant to restock. Input prices and output charges continued to rise rapidly, but at slower rates than in the previous month."*

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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*<sup>™</sup> (*PMI*<sup>™</sup>) 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 Markit. Please contact [economics@ihsmarkit.com](mailto: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<sup>™</sup>, components of which include the Caixin China General Manufacturing PMI<sup>™</sup> and Caixin China General Services PMI<sup>™</sup>. These indexes are closely watched worldwide as reliable snapshots of China's economic health.

For more information, please visit [www.caixin.com](http://www.caixin.com).

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