

Caixin China General Manufacturing PMI™

Manufacturers see further deterioration in operating conditions at the end of 2015

Summary

Operating conditions faced by Chinese goods producers continued to deteriorate in December. Production declined for the seventh time in the past eight months, driven in part by a further fall in total new work. Data suggested that client demand was weak both at home and abroad, with new export business falling for the first time in three months in December. As a result, manufacturers continued to trim their staff numbers and reduce their purchasing activity in line with lower production requirements. Meanwhile, deflationary pressures persisted, as highlighted by further marked declines in both input costs and selling prices.

Adjusted for seasonal factors, the *Purchasing Managers' Index*™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – registered below the neutral 50.0 value at 48.2 in December, down from 48.6 in the previous month. Business conditions have now worsened in each of the past 10 months. That said, the latest deterioration was modest overall.

A renewed contraction of manufacturing output weighed on the headline index reading in December. Although the rate of reduction was modest overall, it was the seventh time in the past eight months that production has fallen, and contrasted with a stabilisation in November. Anecdotal evidence suggested that relatively weak market conditions and reduced client demand had prompted firms to cut output in the latest survey period.

Indeed, total new business declined again in December, and at a similarly modest rate to those seen in the prior two months. Data suggested that softer domestic and international demand led to lower overall new work, with new export business also falling in December. Furthermore, this was the first time that new work from overseas had fallen since September.

Lower output requirements underpinned a further fall in purchasing activity in December. Moreover, the rate of contraction quickened slightly since November and was marked overall. As a result, stocks of inputs also declined over the month, while fewer sales led to a slight accumulation of stocks of finished goods.

Manufacturing companies continued to cut their payroll numbers at the end of 2015 and at a moderate rate. According to panellists, lower staff numbers were the result of company down-sizing policies and cost-saving initiatives. Fewer employees contributed to an accumulation of outstanding work in December, with the rate of growth quickening to an eight-month high.

December data signalled a further fall in average cost burdens faced by Chinese manufacturers. Moreover, the rate of reduction eased only slightly since November and remained sharp overall. Panellists that reported decreased input costs widely attributed this to lower raw material prices. Manufacturers generally passed on their cost savings to clients in the form of lower selling prices, while some companies mentioned that greater market competition had led them to cut their tariffs.

Key Points

- Renewed contraction of output
- Total new work continues to fall, while new export work declines for first time in three months
- Companies continue to shed staff

Comment

Commenting on the China General Manufacturing PMI™ data, Dr. He Fan, Chief Economist at Caixin Insight Group said:

"The Caixin China General Manufacturing PMI for December is 48.2, down 0.4 points from the reading for November. This shows that the forces driving an economic recovery have encountered obstacles and the economy is facing a greater risk of weakening. More fluctuations in global markets are expected now that the U.S. Federal Reserve has started raising interest rates. The government needs to pay more attention to external risk factors in the short term and fine-tune macroeconomic policies accordingly so the economy does not fall off a cliff. It needs to simultaneously push forward the supply-side reform to release its potential and reap the benefits."

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Sources: 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 420 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: 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@markit.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 30 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/economics.

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