

Caixin China General Manufacturing PMI™

Operating conditions improve at quickest pace in nearly four years

Summary

Manufacturing companies in China reported the strongest upturn in operating conditions since January 2013 at the end of 2016. Production expanded at the fastest pace in nearly six years, supported by a solid increase in total new work. As a result, companies raised their purchasing activity at a quicker rate than in November, which led to a renewed increase in stocks of inputs. However, employment continued to decline, as companies made efforts to reduce their costs. Nonetheless, input price inflation picked up to its sharpest since early 2011 amid reports of higher raw material costs, which prompted firms to raise their selling prices at a marked rate.

The seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – picked up from 50.9 in November to 51.9 at the end of 2016. Although modest overall, the latest reading pointed to the fastest rate of improvement in the health of the sector since January 2013.

A further rise in production at Chinese manufacturers supported the higher PMI reading in December. Notably, the rate of output growth accelerated to a 71-month high, with a number of panellists commenting on stronger underlying demand and new client wins. This was highlighted by a sustained increase in new business during December. As was the case for output, the rate of new order book expansion accelerated since November, and was the strongest since July 2014. Data indicated that improved domestic demand was the key driver of new business growth, however, as new export sales were unchanged in December.

Greater intakes of new work imparted further pressure on operating capacity in December, with backlogs of work increasing for the tenth month in a row. Moreover, the rate of accumulation was the strongest since July. There were also reports that fewer workers had also contributed to higher amounts of unfinished work. Chinese manufacturers reduced their workforce numbers for the thirty-eighth month running, though the rate of job shedding was moderate overall. A number of companies mentioned that efforts to reduce their costs had underpinned the latest fall in staff numbers.

Higher amounts of new work led firms to raise their input buying again in December, and at the quickest rate in 29 months. As a result, stocks of purchases rose for the first time since September, albeit only slightly. Meanwhile, inventories of finished items continued to accumulate at a marginal pace.

Stronger demand for inputs led to a further lengthening of average delivery times, as some firms commented on shortages at suppliers. Notably, the rate of deterioration in vendor performance was the fastest in eight months.

Inflationary pressures remained sharp in December, with average input prices rising at the fastest rate since March 2011. Output charges also rose sharply, despite the rate of increase softening slightly since November's 69-month record.

Key Points

- Output expands at fastest rate in nearly six years...
- ...supported by a solid rise in total new business
- Input prices increase at quickest rate since March 2011

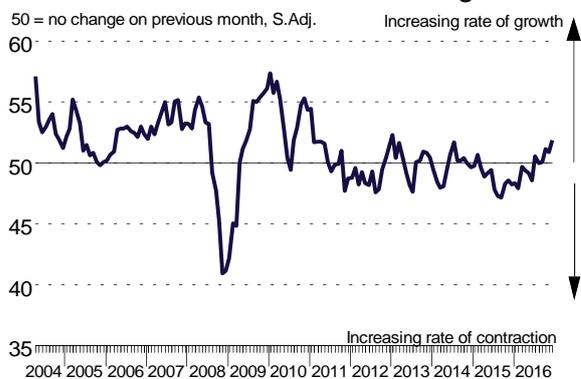
Comment

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 51.9 in December, up one point from the previous month and the strongest expansion since January 2013. The sub-indices for output and new orders both hit multi-year highs while those for input costs and output charges continued to rise rapidly, underlining sustained inflationary pressure.

"The Chinese manufacturing economy continued to improve in December, with the majority of sub-indices looking optimistic. However, it is still to be seen if the stabilization of the economy is consolidated due to uncertainties in whether restocking and consumer price rises can be sustainable."

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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: 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.

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/product/pmi.

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