

# Caixin China General Manufacturing PMI™

Manufacturing sector downturn extends into 2016

## Summary

Chinese manufacturers signalled a modest deterioration in operating conditions at the start of 2016, with both output and employment declining at slightly faster rates than in December. Total new business meanwhile fell at the weakest rate in seven months, and despite a faster decline in new export work. Nonetheless, lower production requirements led companies to cut back on their purchasing activity and inventories of inputs. On the prices front, both input costs and output charges fell again in January, though at the weakest rates in seven months.

At 48.4 in January, the seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – remained below the crucial 50.0 value separating growth from contraction for the eleventh successive month. The reading was up slightly from 48.2 in December, and signalled a further modest deterioration in the overall health of China's manufacturing sector.

Production at Chinese goods producers fell for the second successive month in January. Though modest, the rate of contraction was the fastest seen in four months. According to panellists, relatively weak market conditions and fewer new orders had led firms to cut production. This was highlighted by a further fall in total new business placed at Chinese manufacturers at the start of 2016. That said, the rate of contraction was the slowest seen in seven months, despite a quicker decline in new export work.

Latest data signalled a further decline in Chinese manufacturing employment, with the rate of job shedding quickening to a four-month record in January. Panellists that registered lower staff numbers generally attributed this to company down-sizing policies and the non-replacement of voluntary leavers as workloads were insufficient. Meanwhile, backlogs of work increased for the ninth month in a row in January, albeit only slightly.

Reflective of lower output requirements, goods producers cut their purchasing activity again at the start of 2016. That said, the rate of reduction was the slowest seen in the current seven-month sequence of decline. This in turn contributed to a further modest fall in stocks of inputs in January. Meanwhile, disappointing sales led to a slight accumulation of inventories of finished goods for the second month in a row.

Average supplier performance deteriorated for the first time in three months in January. However, the degree to which lead times increased was only marginal.

Weaker client demand led manufacturers to discount their prices charged again in January, thereby extending the current sequence of deflation to 18 months (although the rate of reduction was the slowest seen since June 2015). Lower selling prices were supported by a further fall in average input costs at the start of the year. In line with the trend for charges, the rate of decline eased to the weakest in seven months. Lower cost burdens were generally linked to reduced raw material prices.

## Key Points

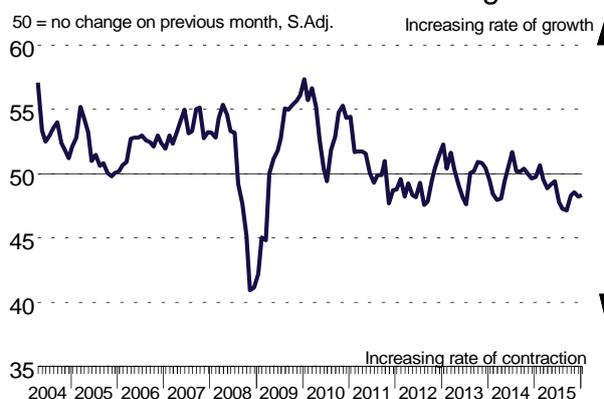
- Operating conditions continue to deteriorate at a modest pace
- Output and employment both contract at faster rates...
- ...but new orders decline at softest pace in seven months

## 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 January is 48.4, up 0.2 points from December. Sub-indexes show a softer fall in new orders, which contributed the most to the improvement in the overall figure. Recent macroeconomic indicators show the economy is still in the process of bottoming out and efforts to trim excess capacity are just starting to show results. The pressure on economic growth remains intense in light of continued global volatility. The government needs to watch economic trends closely and proactively make fine adjustments to prevent a hard landing. It also needs to push ahead with existing reform measures to strengthen market confidence and to signal its intentions clearly."*

Caixin China General Manufacturing PMI



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](http://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](http://www.markit.com/economics).

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