

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

Production increases at quickest rate for a year

Operating conditions across China's manufacturing sector improved slightly at the end of the year, according to latest PMI data. Firms signalled the strongest increase in output for a year amid a renewed uptick in total sales. However, foreign demand remained lacklustre, with export orders broadly stagnant. Improved demand prompted a fresh rise in purchasing activity, but backlogs rose again amid a further drop in staffing levels.

Supplier performance meanwhile deteriorated at a softer pace, and inflationary pressures weakened. Notably, average input costs rose at the slowest pace for 19 months.

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 – rose from 49.9 in November to 50.9 in December, to signal a renewed improvement in the health of the sector. Though marginal, the rate of improvement was the strongest seen since June.

Helping to lift the PMI reading was a stronger increase in production at the end of 2021. Output rose at the quickest rate for 12 months and solidly overall, supported by improved market conditions and stronger customer demand.

New work rose for the third time in the past four months in December, albeit marginally. Underlying data indicated that subdued foreign demand weighed on overall sales, as export business was little-changed compared to November. A number of firms indicated that the global pandemic and difficulties in shipping items continued to impact external sales.

Greater amounts of overall new business exerted further pressure on capacity, as shown by a slightly quicker rise in backlogs of work. Firms also commented that insufficient staff numbers had led to increased amounts of incomplete business. Employment fell for the fifth month in a row, and at the fastest rate since February. Companies indicated that the non-replacement of voluntary leavers and retirees had contributed to lower workforce numbers.

In line with the trend for total sales, purchasing activity also returned to growth at the end of the year. Though modest, the upturn was the quickest seen since June. Stocks of inputs and finished goods meanwhile rose slightly, as some firms noted efforts to build up their inventory levels amid firmer demand conditions.

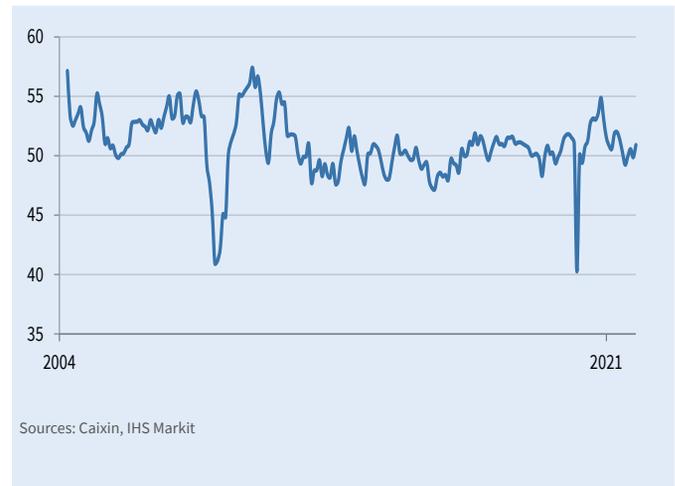
Although the time taken for purchased items to be delivered to manufacturers increased again in December, there were signs of supply chains moving closer to stabilising. Average lead times lengthened at the slowest rate for nine months and only modestly overall.

Average input costs rose at the weakest rate for 19 months in December, with the rate of inflation having fallen further from October's recent peak. Panel members indicated that lower prices for some raw materials, such as steel, helped to dampen cost inflation. Prices charged meanwhile fell for the first time since April 2020, albeit marginally.

Although business confidence remained strong overall in December, the degree of optimism slipped to a 20-month low. The ongoing global pandemic, and its uncertain trajectory, as well as strained supply chains were cited as key challenges for the year ahead.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Caixin, IHS Markit

Key findings:

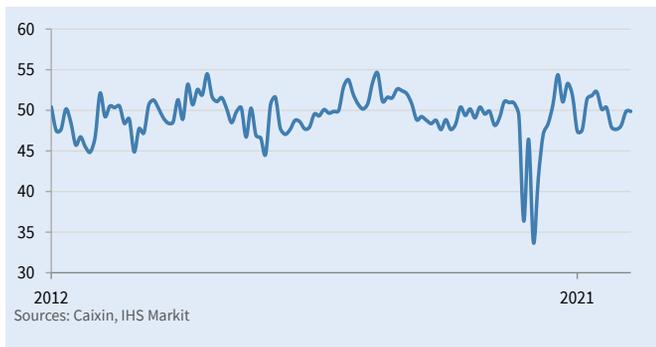
Stronger rise in output amid renewed upturn in sales

Input cost inflation eases to 19-month low

Business confidence weakens amid pandemic and supply chain worries

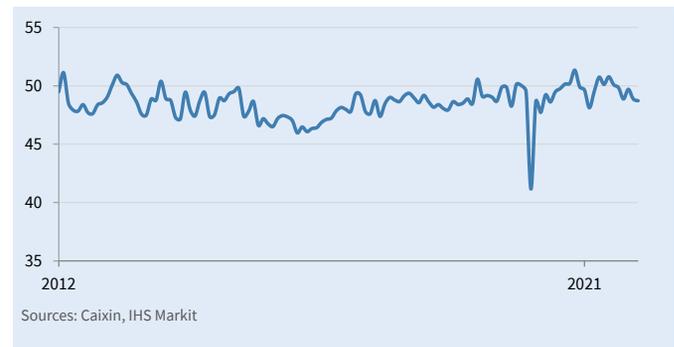
New Export Orders Index

sa, >50 = growth since previous month



Employment Index

sa, >50 = growth since previous month



Commenting on the China General Manufacturing PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

“The Caixin China General Manufacturing PMI came in at 50.9 in December, up from 49.9 the previous month. The index returned to expansionary territory and reached the highest level since June.

“Supply was strong and demand rebounded. With the easing of supply constraints, output expanded for the second month in a row and at a faster pace. Total new orders increased, the third expansion over the past four months, as the impact of scattered Covid-19 flare-ups was under control. Overseas demand remained sluggish because of the pandemic’s impact in foreign countries and rising logistics costs due to a shortage of containers. The gauge for new export orders stayed in contractionary territory for the fifth consecutive month.

“Employment pressure intensified. Despite better demand and supply, firms were still cautious about hiring. The subindex of employment stayed in negative territory for the fifth consecutive month in December and hit the lowest point since February. Surveyed enterprises were not enthusiastic about filling the vacancies left by staff resignation or retirement.

“Inflationary pressure eased as costs rose at a slower clip. The gauge for input costs remained in expansionary territory but was lower than the previous month. Prices of some raw materials such as steel dropped considerably as government measures to ensure supply and to stabilize prices took effect. Output prices dropped for the first time since April 2020 as enterprises cut prices to promote sales. The decline in factory-gate prices of investment goods was more obvious than that of consumer goods and intermediate goods.

“Inventories increased slightly. With the recovery of the market, manufacturers’ purchases increased significantly compared with the

previous month. Inventories of finished goods and raw materials both rose. The survey shows that some manufacturers with brisk sales began to actively replenish inventory.

“Entrepreneurs became less optimistic. Manufacturers remained overall upbeat on the market outlook but the gauge for future output expectations hit the lowest point since April 2020. Surveyed enterprises were worried about the negative impact of the pandemic and its shock to supply chains.

“To sum up, manufacturing demand and supply improved in December with easing inflationary pressure. But the job market was still under pressure and businesses were less optimistic, indicating unstable economic recovery. The repeated Covid-19 flare-ups and sluggish overseas demand were factors of instability. As policymakers said at the Central Economic Work Conference that China’s economic growth is facing triple pressures of “demand contraction, supply shock and weakening expectation,” stabilizing the economy will become the key priority of economic work in 2022.

“We are aware that the employment subindex under the Caixin manufacturing PMI and the official surveyed unemployment data both indicated a weakening momentum of the job market. Policymakers should focus on shoring up employment as well as on targeted support to small and midsize businesses. They should make policies more consistent, stable and predictable.”



Survey methodology

The Caixin China General Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 500 private and state-owned manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. For the purposes of this report, China is defined as mainland China, excluding Hong Kong SAR, Macao SAR and Taiwan.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For more information on the survey methodology, please contact: economics@ihsmarkit.com.

Survey dates and history

Data were collected 03-15 December 2021.

Data were first collected April 2004.

About PMI

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.

<https://ihsmarkit.com/products/pmi.html>

About Caixin

Caixin is an all-in-one media group dedicated to providing financial and business news, data and information. Its multiple platforms cover quality news in both Chinese and English. Caixin Insight Group is a high-end financial research, data and service platform. It aims to be the builder of China's financial infrastructure in the new economic era.

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