PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

Production levels move closer to stabilisation as COVID-19 measures relaxed

The recent relaxation of COVID-19 containment measures helped to ease pressure on China's manufacturing sector during January. Output fell at the softest pace for five months, while the downturn in new orders also moderated. Nevertheless, there were reports that the pandemic and relatively subdued market conditions continued to impact customer demand and operations. Notably, staff absences contributed to a further drop in employment and a renewed rise in backlogs. Pressure on supply chains meanwhile eased, with delivery times increasing only slightly, and cost pressures remained mild.

When considering the 12-month outlook for output, firms expressed the strongest optimism since April 2021, supported by hopes that economic conditions and new business will rebound.

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 49.0 at the end of 2022 to 49.2 in January, to signal a decline in the health of China's manufacturing sector for the sixth month in a row. That said, the rate of deterioration eased from December and was only marginal.

The relative improvement in the headline index was partially due to a softer fall in production volumes at the start of the year. Output fell at a marginal pace that was the softest in five months, with some firms noting that the easing of COVID-19 containment measures had reduced pressure on operations.

Nevertheless, firms reported that demand conditions remained relatively subdued overall, and this contributed to a further fall in overall new work. In line with the trend for output, the rate decline eased since December and was marginal. New export business also contracted further amid reports of relatively weak global demand conditions.

Supply chains moved closer to stabilisation at the start of 2023, with average lead times for inputs increasing only slightly. While a number of firms mentioned that the rollback of containment measures had helped to ease strain on supply chains, logistics had yet to recover fully in some areas amid worker shortages.

Although purchasing activity fell further in January, the rate of reduction eased notably compared to December and was the slowest for three months. At the same time, inventories of both pre- and post-production items fell at quicker rates as firms often made greater use of current stocks in light of muted customer demand.

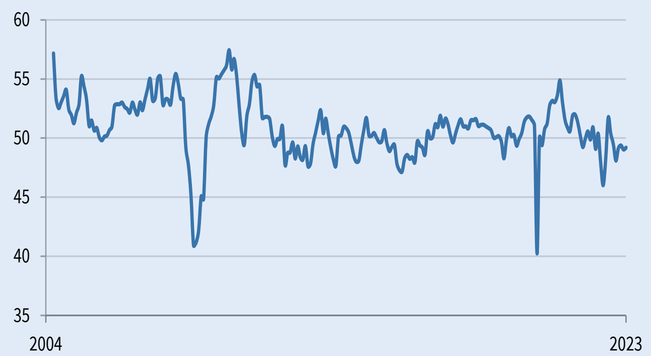
Workforce numbers at manufacturing firms continued to fall in January, though at a slower rate than at the end of 2022. According to panellists, staff resignations and absences due to COVID-19 illness weighed on headcounts. Insufficient staffing levels contributed to a renewed upturn in backlogs of work, albeit one that was marginal overall.

Average input costs increased at the quickest rate in seven months in January. That said, the rate of inflation remained much slower than the historical average. At the same time, selling prices fell slightly as pricing power was constrained by efforts to stimulate sales.

The return to more normal business operations, and hopes that the economy and new business will rebound, helped to lift business confidence at the start of the year. Notably, the degree of optimism was the highest recorded since April 2021.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Caixin, S&P Global

Key findings:

Softer falls in output and new orders

Supply chain pressures ease

Confidence around the outlook hits highest since April 2021

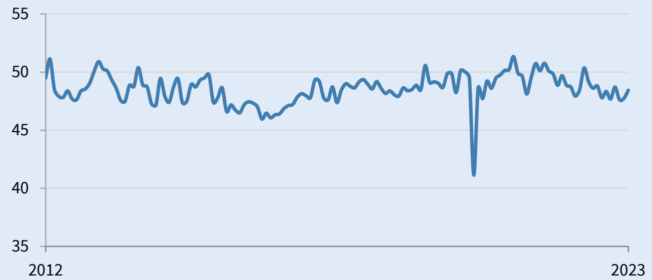
New Export Orders Index

sa, >50 = growth since previous month

Sources: Caixin, S&P Global

Employment Index

sa, >50 = growth since previous month



Sources: Caixin, S&P Global

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

"The Caixin China General Manufacturing PMI in January rose 0.2 points from the previous month to 49.2, remaining in contractionary territory for the sixth consecutive month, as manufacturing activity remained sluggish after a shift in Covid-19 control policies.

"Both manufacturing supply and demand continued to shrink last month, as Covid infections remained high. Output and total new orders shrank for the fifth and sixth straight months, respectively, but the contraction was milder than in December. Due to mounting recession risks overseas, external demand remained weak, with the reading for new export orders also contracting for the sixth consecutive month.

"Employment continued to shrink. Surging Covid infections impacted the number of people at work, keeping the subindex in contractionary territory for the 10th month running. The situation caused backlogs of work to rise for the first time since May 2022. But the rate of expansion was only marginal.

"Prices remained stable in January. Input and output prices diverged for the fourth consecutive month. The rise in input prices was mainly driven by elevated raw material costs, metals in particular, whereas output prices dropped given the sluggish market activity. Meanwhile, output prices at consumer goods makers climbed slightly.

"Suppliers' delivery times greatly improved. With Covid controls optimized, the subindex for suppliers' delivery times grew significantly from December. But it stayed below 50, suggesting that logistics had not returned to normal. In January, the quantity of purchases, stocks of raw materials, and inventories of finished products all shrank for the third consecutive month.

"Optimism continued to improve among businesses in January. The reading for manufacturers' expectations for future output reached the highest since April 2021. Businesses expressed stronger confidence in an economic recovery following the easing of Covid containment measures.

"Overall, the pandemic continued to take a toll on the economy in January. Supply and demand weakened, overseas demand was sluggish, employment declined, and logistics hadn't fully recovered, while the quantity of purchases shrank, inventories dropped, and manufacturers faced growing pressure on profitability. But optimism in the sector continued to improve as businesses expected a post-Covid economic recovery.

"Since Covid controls were optimized at the end of 2022, China has seen a surge in Covid infections. According to the Chinese Center for Disease Control and Prevention, the numbers of fever clinic visits nationwide and people hospitalized with Covid peaked in late December and early January, respectively, and have declined since then.

"After being hit by the latest wave of Covid infections, the primary focus of economic work should be on accelerating economic recovery and promoting normalized production and social orders. Improving expectations, restoring confidence, increasing income, expanding consumption, and stimulating domestic demand will be among the priorities. There is still uncertainty in how the pandemic will develop, so full preparation should be made to deal with the next wave of the virus. China will still need to effectively coordinate pandemic containment with economic and social development."

Survey methodology

The Caixin China General Manufacturing PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 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 09-23 January 2023.

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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