

PMI

Caixin China
General Manufacturing
PMI Press Release

2023.12



Caixin China General Manufacturing PMI®

Manufacturing sector growth picks up in December

The latest PMI® data pointed to a sustained improvement in manufacturing conditions in China at the end of 2023. Firms signalled stronger increases in output and new orders amid reports of firmer market demand. At the same time, new export business fell at the softest rate in six months. However, business confidence regarding the year-ahead remained historically subdued and firms maintained a cautious approach to employment, as staffing levels fell for the fourth straight month.

Cost pressures continued to moderate at the end of the year, with average input costs rising at the weakest pace since August. Meanwhile, competitive market pressures meant that prices charged by manufacturers rose only fractionally.

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 – edged up from 50.7 in November to 50.8 in the final month of 2023. This signalled an improvement in the health of the sector for the fourth time in the past five months, albeit one that remained marginal overall.

The slight uplift in the headline index was partly due to a stronger rise in new orders during December. Although modest, the latest increase in overall sales was the quickest recorded since February. Companies often mentioned that improved market conditions and greater client spending had supported the latest rise in new work. At the same time, the downturn in new foreign sales moderated in December, with new export business declining at a marginal rate that was the weakest in six months.

Higher amounts of new orders led manufacturers to raise output for the second straight month in December. The rate of growth was the most pronounced in seven months, albeit modest overall.

Despite the quicker increases in production and sales, manufacturers maintained a cautious approach to staffing levels. Notably, employment across the sector fell for the fourth straight month, and at the quickest pace since May. Firms often mentioned that they had opted not to replace voluntary leavers or trimmed headcounts as demand was more subdued than expected. Moreover, companies indicated that capacity pressures eased in December, with backlogs of work falling for the first time in seven months.

Purchasing activity meanwhile stagnated after a marginal rise in November. A number of companies cited greater usage of existing stocks to cut costs, driving a further marginal drop in inventories of inputs. Stocks of finished goods meanwhile increased slightly, partly due to the delayed shipment of items to clients.

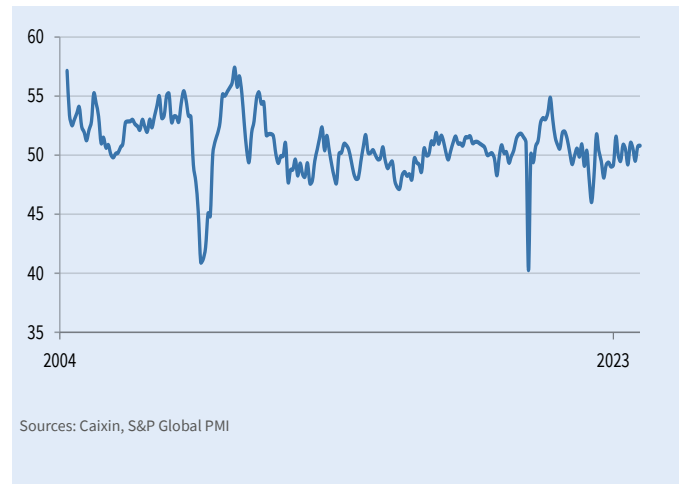
Manufacturers signalled the first deterioration in average supplier performance for three months in December. There were reports that delivery times had increased due to shortages of some raw materials and strained supplier capacity.

Although input costs continued to rise at the end of the year, the rate of inflation moderated to a four-month low and was only marginal. Concurrently, firms signalled only a fractional rise in selling prices, with companies often reluctant to pass on higher expenses to clients amid greater market competition.

Chinese manufacturers anticipate production to rise over the course of 2024 amid forecasts of firmer global demand, higher client spending and new product investment. However, the degree of optimism softened from November and remained below the series average.

China General Manufacturing PMI

sa, >50 = improvement since previous month



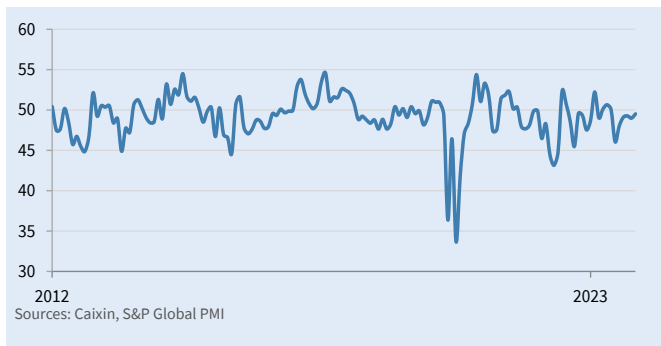
Sources: Caixin, S&P Global PMI

Key findings:

- Output and new orders both increase at quicker rates...
- ...but firms maintain a cautious approach to employment
- Inflationary pressures remain soft

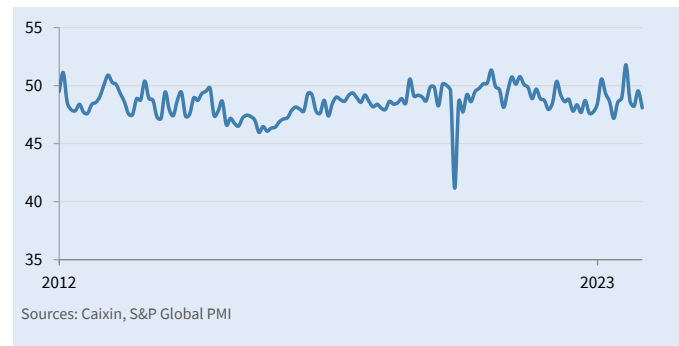
New Export Orders Index

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 edged up 0.1 points to 50.8 in December, the fourth time in five months that the index has been in expansion, indicating a sustained improvement in the sector.”

“Both supply and demand expanded as the market continued its upward trend, boosting production and sales. The subindexes for output and total new orders reached new highs since May and February, respectively, with particularly strong demand for consumer goods. But overseas purchasing power remained limited, with the gauge for new export orders in contraction for the sixth consecutive month, despite a softer rate of contraction.”

“Employment declined significantly. The expansion of market supply and demand did not translate to an increase in hiring. The subindex remained in contraction for the ninth time in the past 10 months, recording its lowest reading in seven months. Overall, manufacturing enterprises lacked the drive to increase employment, with some companies downsizing. Despite headcount reductions, companies were able to reduce the backlog of work. Some surveyed companies indicated that with weaker-than-expected market demand, existing capacity was sufficient to handle additional orders.”

“Price levels remained stable. In December, due to higher industrial metal prices, there was a moderate increase in input costs. The measure came in at its lowest point since August. Output prices also experienced limited increases. Overall prices charged by manufacturers ticked up last month, whereas prices charged by producers of consumer goods recorded a slight decrease.”

“Supplier logistics slowed. The subindex for supplier delivery times slipped into contraction for the first time in three months, constrained by raw material shortages and insufficient supplier capacity. Manufacturers adopted a cautious approach to purchasing, with quantities unchanged and

a slight reduction in raw material inventories.

“Market optimism weakened in December. Sentiment among manufacturers declined slightly compared to the previous month, with the reading for expectations for future output falling below the historical average. Factors such as consumer budget constraints, intense market competition and uncertain global economic prospects continued to be the primary concerns for manufacturers.”

“Overall, the economic outlook for the manufacturing sector continued to improve in December, with supply and demand expanding and price levels remaining stable. However, employment remained a significant challenge, and businesses expressed concerns about the future, remaining cautious in areas including hiring, raw material purchasing, and inventory management.”

“The annual Central Economic Work Conference in December highlighted ongoing economic recovery and progress in high-quality development. But it is also crucial to note that domestic and external demand is still insufficient, and the foundation for a positive economic recovery needs to be consolidated. Particularly, weak expectations from households and enterprises and pressure on the job market persist.”

“Policymakers called for efforts to “pursue progress while ensuring stability, consolidate stability through progress, and establish the new before abolishing the old,” prioritizing policies that boost expectations, growth and employment.”

“Looking to the new year, there is still room for adjustments in fiscal and monetary policies. Efforts in increasing employment should be strengthened to alleviate pressure on the job market, improve people’s livelihoods, and ultimately foster long-term market confidence.”



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@spglobal.com.

Survey dates and history

Data were collected 06-14 December 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.

www.spglobal.com/marketintelligence/en/mi/products/pmi

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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