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Growth in manufacturing activity eases

Caixin PMI hits 3-month low as other Asian powerhouses surge ahead

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China's manufacturing engine cooled slightly last month, even as various survey data suggested industrial growth in other Asian powerhouses hit the highest levels for years.

The Caixin/Markit manufacturing purchasing managers' index (PMI) – a gauge of sentiment among smaller private firms – fell to 53 in December from a decade-high 54.9 in November.

Any reading above 50 suggests an expansion in the manufacturing sector.

It was the softest result in three months and lower than the median forecast of 54.9 by analysts in a Bloomberg survey. However, it still marked the eighth consecutive month of growth in the sector after it was ravaged by coronavirus lockdowns at the start of the year.

Yesterday's data release followed that of the official manufacturing PMI last week, which showed activity among China's larger state-owned firms also slowed modestly to 51.9 last month from a three-year high of 52.1 in November.

"The fall is more significant than the December moderation of the official manufacturing PMI, partly because [small and medium-sized enterprises] may be suffering more from tighter electricity supply in some provinces in southern China and partly due to a very high base," said Lu Ting, Nomura's chief China analyst.

And while the risks of new Covid-19 outbreaks could increase over the coming weeks as migrant workers returned to their hometowns for the Lunar New Year holiday, Nomura "expects China's manufacturing PMIs to stay buoyant in coming months".

Chinese firms surveyed reported a smaller gain in production during December, along with a slower, but still marked, increase in overall new orders.

Underlying data suggested this was partly due to weaker growth in new export sales, as demand from foreign clients expanded only modestly.

Companies also took a more cautious approach to employment levels amid an accelerated rise in overall input costs, as workforce numbers were broadly unchanged.

Nonetheless, the eight-month growth streak points to the robust recovery in China's economy, which this time last year was on the cusp of an unprecedented lockdown.

Other parts of the Asia-Pacific reported positive economic data on Sunday and yesterday, with PMIs suggesting the region may remain an engine for global growth in the new year.

Japan's gauge rose to 50 in December, its highest reading since April 2019, according to a survey conducted by Jibun Bank and IHS Markit, while Taiwan's official PMI jumped to 59.4, its highest point since 2011.

South Korea's PMI remained at a nine-year high of 52.9, its third consecutive month of expansion, even as the country battles its third wave of coronavirus infections. Seoul's Ministry of Trade, Industry and Energy last Friday reported the strongest export growth since August 2018, with shipments up 12.6 per cent in December from a year earlier.

"Manufacturing PMIs and Korean trade data suggest regional industry and exports saw another sharp improvement at the end of the year. While some of this strength may fade in the coming quarters, we still expect export-driven industry to support gross domestic product growth in most of the region's economies throughout 2021," said Alex Holmes, emerging market analyst at Capital Economics.

China's overall economy has bounced back strongly from the impact of the pandemic after a record contraction in the first three months of last year.

GDP grew 4.9 per cent in the third quarter from a year earlier, thanks largely to state-led investment in infrastructure and demand for medical exports and other goods in Western economies still grappling with the outbreak.

China is expected to be the only Group of 20 nation to show positive growth for 2020, with some suggesting its economy could expand by as much as 9 per cent this year.

4.9%

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