

China

Manufacturing growth eases in December, prompts job cuts and lower prices

- **Manufacturing PMI slips from November's eight-month high**
- **Survey remains consistent with steady industrial production and export growth**
- **But underlying picture is one of weak demand, falling employment and lower prices**

The rate of expansion of China's manufacturing economy slowed slightly in December, according to Markit's **flash PMI™**, produced for HSBC. The PMI fell from an eight-month high of 50.8 in November to 50.5, a three-month low.

Growth of output eased slightly, and employment fell at a slightly faster rate than November. But it was not all negative news. Inflows of new orders picked up marginally to reach a nine-month peak, reflecting in part a marginal improvement in exports sales.

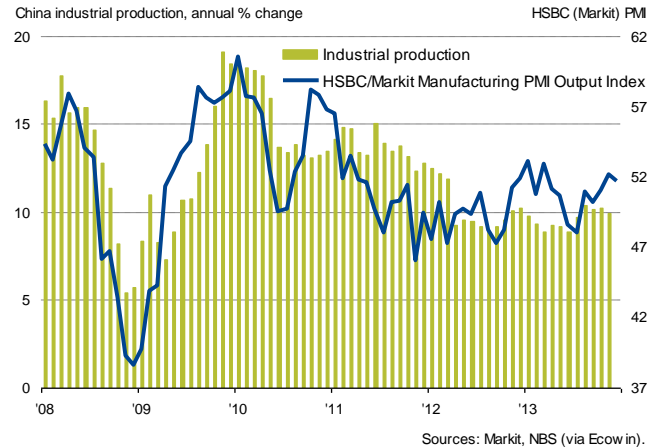
The overall climate nonetheless appears to be one of weak demand, highlighted by the comparatively lacklustre order book and export growth by historical standards, as well as the need for firms to cut prices to win sales. The latter, along with slack in the supply chain, at least has the advantage of signalling subdued inflationary pressures.

Output growth for fifth successive month

Purchasing managers reported an increase in manufacturing output for a fifth month running in December, albeit at a reduced rate of growth compared to November. The data nevertheless add to the view that production growth has picked up from the lows seen at mid-year, and that a further easing in the pace of economic growth in the fourth quarter may be avoided as the industrial sector revives.

The survey data have also correctly signalled an upturn in export growth, which looks to have been sustained into December. A three-month average of the volatile official export data showed the annual rate of growth rising to a six-month high of 6.0% in November, an upturn that had been flagged ahead by

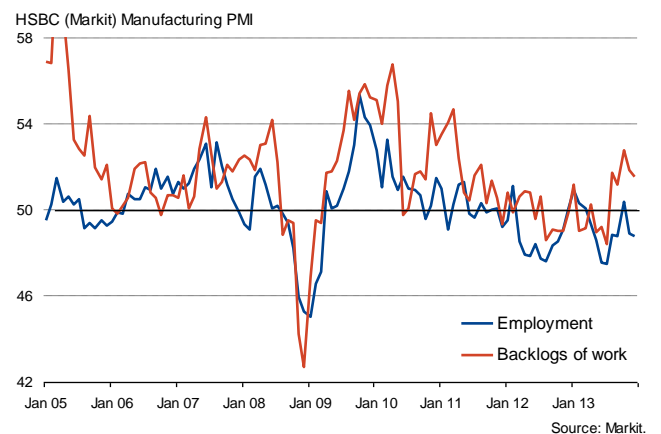
Industrial production and the PMI



Goods exports



Manufacturing jobs and order book backlogs



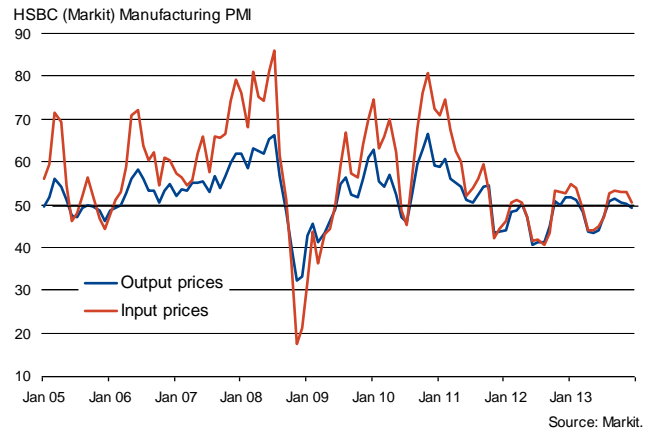
the PMI's New Export Orders Index hitting an 11-month peak in October. Although the index is down from that peak in recent months, the survey has now signalled continuous export growth in the final five months of 2013.

Job losses and falling prices

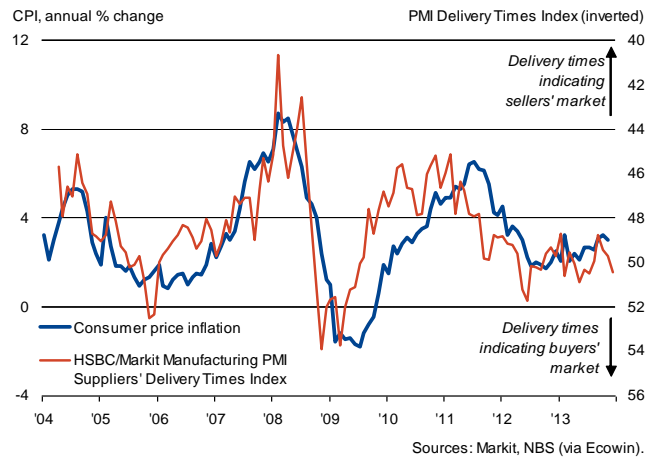
Producers cut employment for the eighth time this year, with the rate of job losses picking up slightly on November as firms sought to reduce costs and boost competitiveness. Prices were also cut in an attempt to win sales, with the survey registering the first drop in selling prices since July. The ability to cut prices was facilitated by a near-stagnation of input cost inflation, which showed the weakest rise for five months.

The lack of cost pressures in the supply chain reflected growing price competition among suppliers, keen to offer lower rates to win sales. The Suppliers' Delivery Times Index, a key barometer of how busy suppliers are and therefore also a reliable guide to future inflationary pressures, signalled the first improvement in lead-times since July, underscoring a general shift to a buyers' market.

Input and output prices



Suppliers' delivery times and inflation



Chris Williamson

Chief Economist, Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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