China’s Caixin manufacturing PMI shows slimmer profits for smaller manufacturers

Chinese manufacturing activity contracted further in November. The future depends on the implementation of Covid measures and external demand

Conditions for international trade remain very tough

The detail reveals a picture that is weaker than the headline numbers suggest

China's Caixin manufacturing PMI surprised on the upside at 49.4 in November compared to 49.2 in October. It appears as though smaller manufacturers did not suffer as badly as had been expected by the consensus, which had forecast an index of 48.9.

But looking at the details of the sub-indices, it looks like manufacturing activity actually deteriorated faster in November.

The employment sub-index was the lowest it has been since March 2020. In contrast, the input price sub-index has been above 50 for the last two months due to high crude oil and metals prices. And even though the two sub-indices diverged, they point to slower sales growth and slimmer profit margins for smaller manufacturers, which is a more downbeat story than that suggested by the headline numbers.

Future depends on implementation of existing Covid measures

Weaker external demand is another headache for Chinese exporters. With even weaker external economic growth projected for 2023, it seems that there will be no immediate reversal of the weak trend for Chinese exporters any time soon.

One possible positive note is that although Covid cases in China continue to run high, Vice Premier Sun has stated that "...with the weakening of the pathogenicity of the Omicron virus, the popularisation of vaccination and the accumulation of experience in prevention and control, China is facing a new situation and new tasks in the prevention and control of the epidemic".This hints that local government officials will likely exercise Covid measures with an intent to reduce their impact on the economy even if there are no further imminent changes in the overall Covid rules.