HKUST LI & FUNG
SUPPLY CHAIN INSTITUTE

CFLP

January 2026

PMI Quarterly on China Manufacturing

PMI 4Q25
Recovery after early slump in the manufacturing sector

Policy Outlook
China to ramp up policy support in 1Q26

1Q26 Forecasts
GDP growth to pick up to 4.6% yoy while PMI to fluctuate around 50.0

HKUST Li & Fung Supply Chain Institute

Helen Chin
helenchin@ust.hk

William Kong
williamkong@ust.hk

China Federation of Logistics & Purchasing

Chen ZhongTao
czt@clic.org.cn

Issue 63

PMI points to recovery after early slump in the manufacturing sector in 4Q25

Helen Chin
E: helenchin@ust.hk

William Kong
E: williamkong@ust.hk

HKUST Li & Fung Supply Chain Institute
LSK Business Building
The Hong Kong University of Science & Technology
Clear Water Bay
Kowloon, Hong Kong
E: ustlfsci@ust.hk

Chen ZhongTao
czt@clic.org.cn
China Federation of Logistics & Purchasing

Our observations

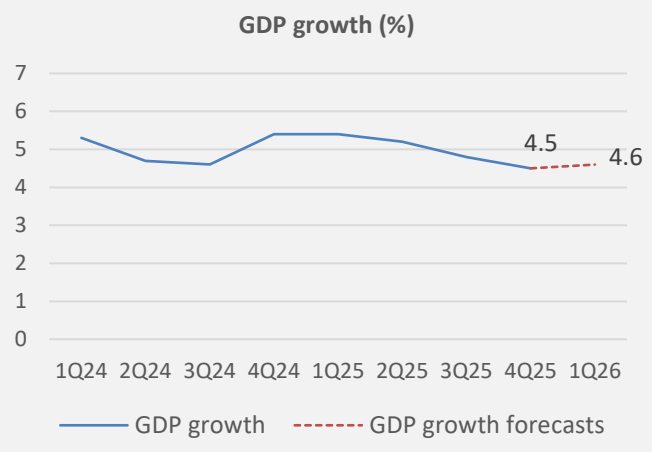
- Large enterprises are recovering after an early slump, while small and medium enterprises continue to contract.
- Manufacturing output has resumed expansion.
- Overall market demand is recovering.
- Manufacturers are lowering ex-factory prices despite rising input costs.
- Employment in the manufacturing sector has seen a slight decline.

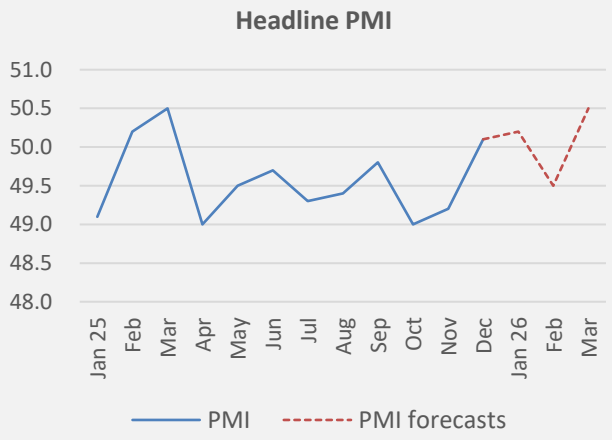
Policy outlook

- The Central Economic Work Conference has set the tone for China's macro policies in 2026 as 'more proactive and impactful'.
- The meeting reiterated that China will continue to implement a more proactive fiscal policy and a moderately loose monetary policy.
- We expect the Chinese government to ramp up policy support in 1Q26, which will help the economy grow steadily.

Our forecasts for 1Q26

- We project a stable growth in manufacturing production. While a continued improvement in external demand is positive, a high comparison base from the same period last year will keep the VAIO growth rate moderate.
- Headline PMI will fluctuate around 50.0 due to distortions from the Chinese New Year holiday.
- VAIO growth will come in at 5.0% yoy.
- Real GDP growth will pick up to 4.6% yoy.
- Exports will experience a low single-digit growth.
- Year-on-year growth rates for the purchaser price index and the PPI will remain negative but improve slightly, as the Chinese government prioritizes addressing overproduction in key sectors.





IN THIS ISSUE:

PMI points to recovery after early slump in the manufacturing sector in 4Q25 4

What the PMI tells us about the performance of enterprises of different sizes 8

What the PMI tells us about manufacturing production 9

What the PMI tells us about overall market demand 11

What the PMI tells us about upstream and midstream prices 13

What the PMI tells us about manufacturing employment 16

1. PMI points to recovery after early slump in the manufacturing sector in 4Q25

We project that China's real GDP growth will pick up to 4.6% yoy in 1Q26. This growth will be driven by continued expansion in exports and industrial production, although it will be tempered by a high comparison base from the same period last year.

China's manufacturing sector in 4Q25

The China–US trade war continued to exert pressure on China's exports and manufacturing production, with China's manufacturing PMI dropping to 49.0 in October and remaining low at 49.2 in November. However, as the two countries reached a trade war truce in late October and cut tariff rates starting 10 November, China's headline PMI rebounded to 50.1 in December, marking its return to expansionary territory for the first time since March 2025. This latest index reading indicates a recovery in the manufacturing sector. (See exhibit 1)

After a slight contraction in October, manufacturing output has since recovered, with the output index rising from 49.7 in October to 50.0 in November and further to 51.7 in December. This recent growth was supported by improved overall market demand, as the new orders index increased from 48.8 in October to 49.2 in November, and reached a nine-month high of 50.8 in December.

Prices of industrial products continued to decline, with the ex-factory prices index remaining below the critical 50-mark throughout the quarter. Meanwhile, material prices rose further, as the input prices index stayed above 50 from October to December.

Exhibit 2 shows the contributions of the sub-indices to the change in the headline PMI. The rebound in the headline PMI since October was primarily driven by increases in the new orders index (which weighs 30% in the computation of the headline PMI) and the output index (which weighs 25%). Among the 12 sub-indices (excluding the suppliers' delivery time index), the indices of input prices and business expectations remained in expansionary zone throughout the quarter. In contrast, the indices of new export orders, backlogs of orders, stocks of finished goods, stocks of major inputs, imports, ex-factory prices, and employment remained in contractionary zone during the same period. (See exhibit 3)

Policy outlook

The Central Economic Work Conference took place on 10-11 December 2025, setting the tone for China's macro policies in 2026 as 'more proactive and impactful'. Regarding economic work for this year, the meeting emphasized the importance of pursuing progress while maintaining stability and improving quality and efficiency. The government should leverage the integrated effects of both existing and new policies, increase counter-cyclical and cross-cyclical adjustments, and enhance the effectiveness of macroeconomic governance.

The meeting reiterated that China will continue to implement a more proactive fiscal policy while maintaining necessary fiscal deficits, overall debt levels and expenditure scale. It will also maintain a moderately loose monetary policy, employing various monetary policy tools—such as required reserve ratios and interest rates—in a flexible and efficient manner to ensure ample liquidity.

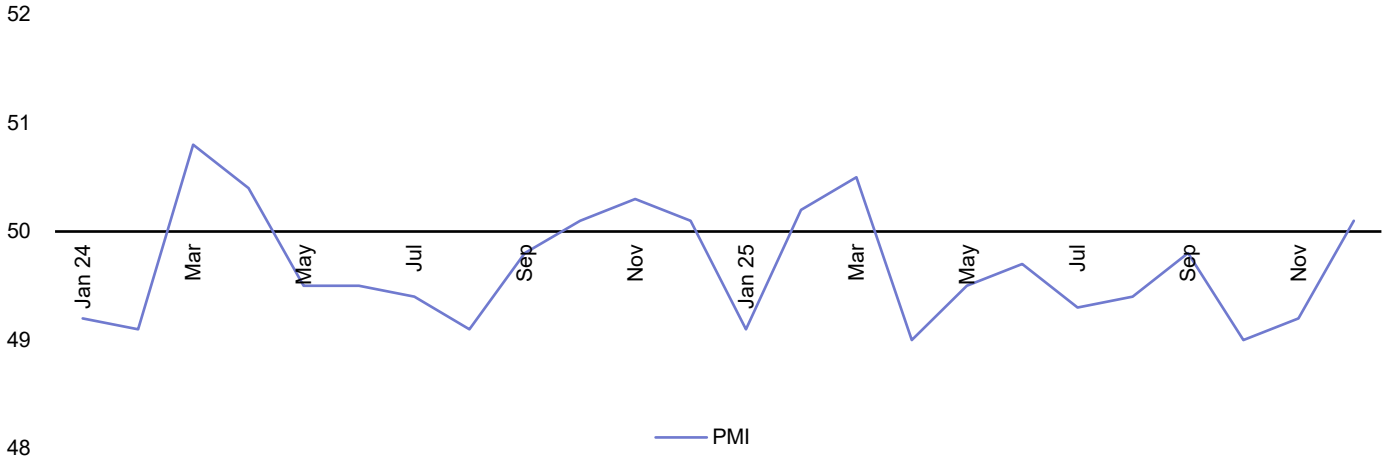
Looking ahead, we expect that the Chinese government will ramp up policy support in 1Q26, which will help the economy grow steadily.

Forecasts for 1Q26

With global trade tensions easing and external demand continuing to improve, we expect a steady growth in China's exports and industrial production. However, a high comparison base from the same period last year will keep the growth rates moderate. Overall, we predict that China's industrial production will increase by 5.0% yoy in 1Q26. Meanwhile, the headline PMI is likely to fluctuate around 50.0 due to distortions from the Chinese New Year holiday.

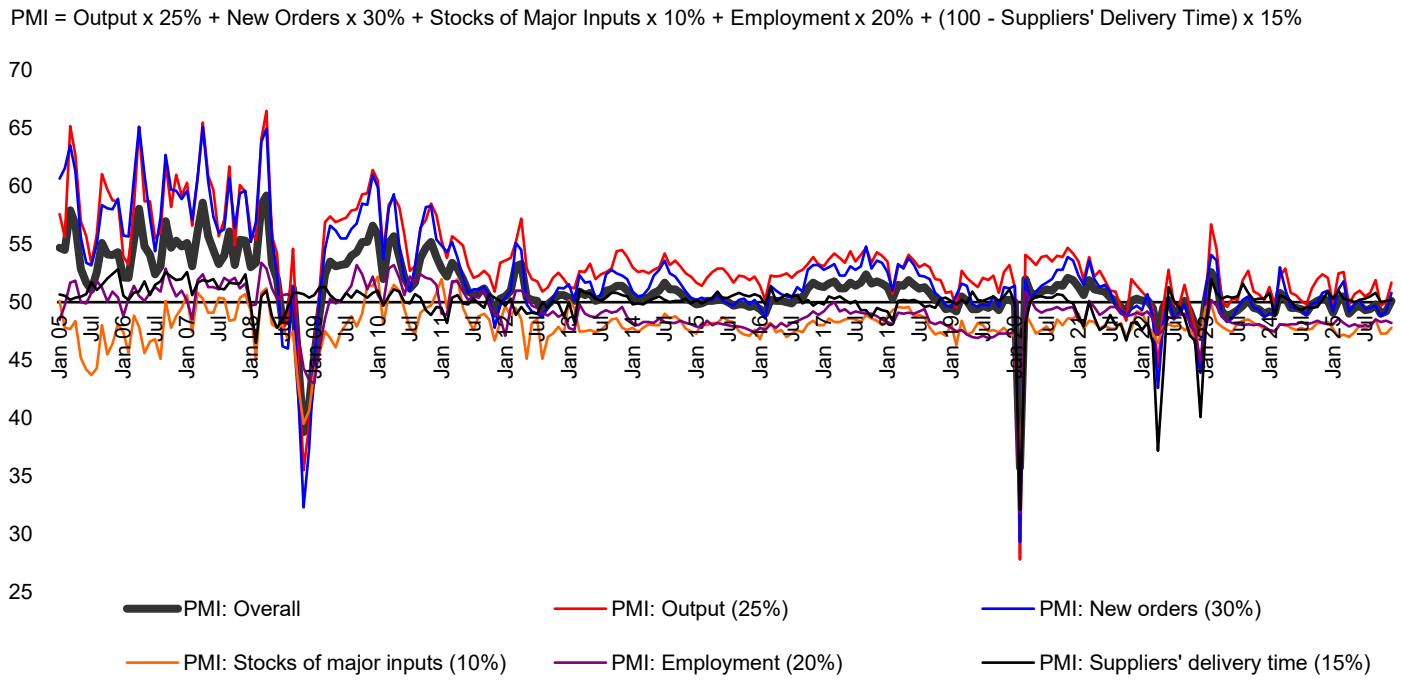
Exhibit 4 plots the quarterly real GDP growth rates alongside the monthly PMIs since January 2021. We project that China's real GDP growth will pick up to 4.6% yoy in 1Q26. This growth will be driven by continued expansion in exports and industrial production, although it will be tempered by a high comparison base from the same period last year.

Exhibit 1: Headline PMI, January 2024 to December 2025



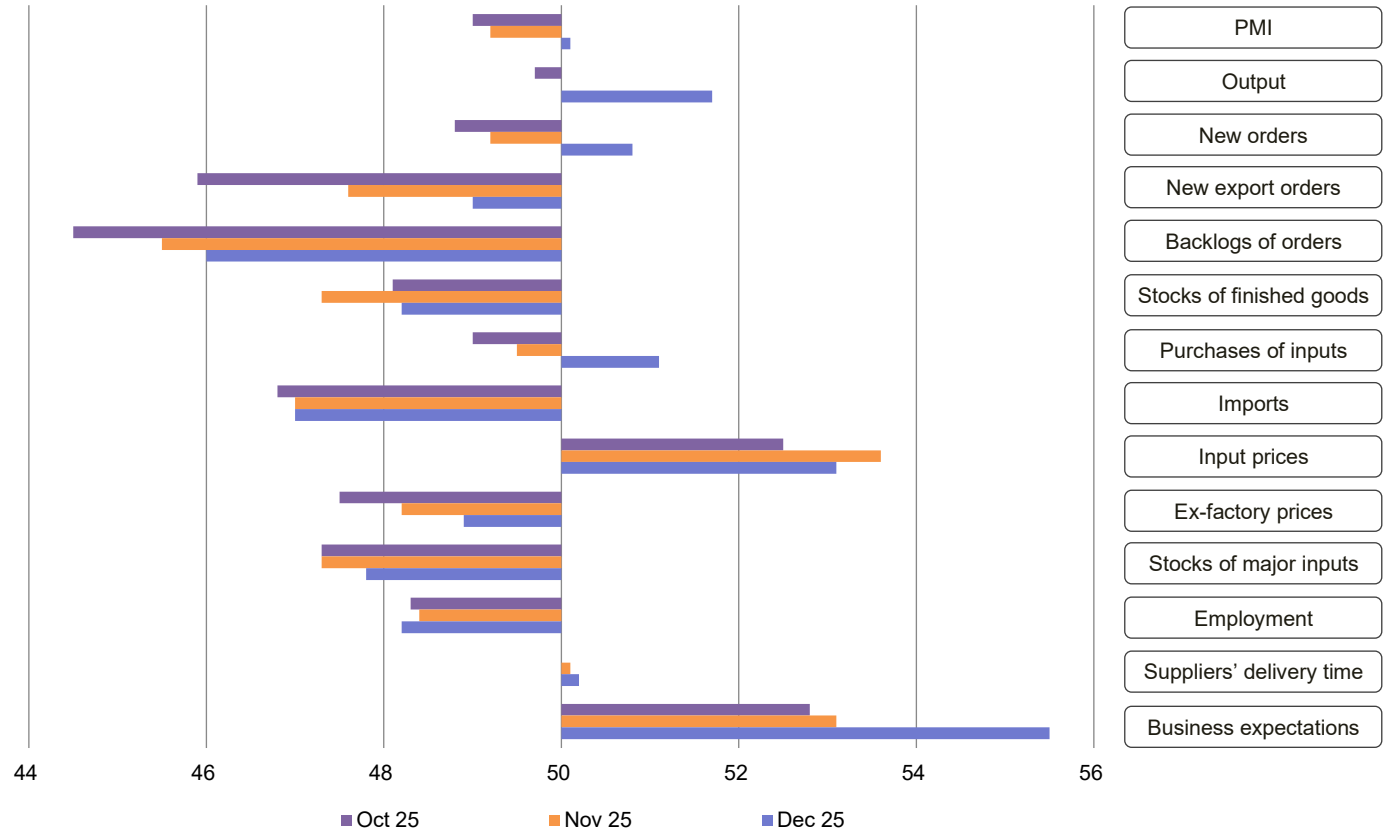
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 2: Headline PMI and sub-indices, January 2005 to December 2025



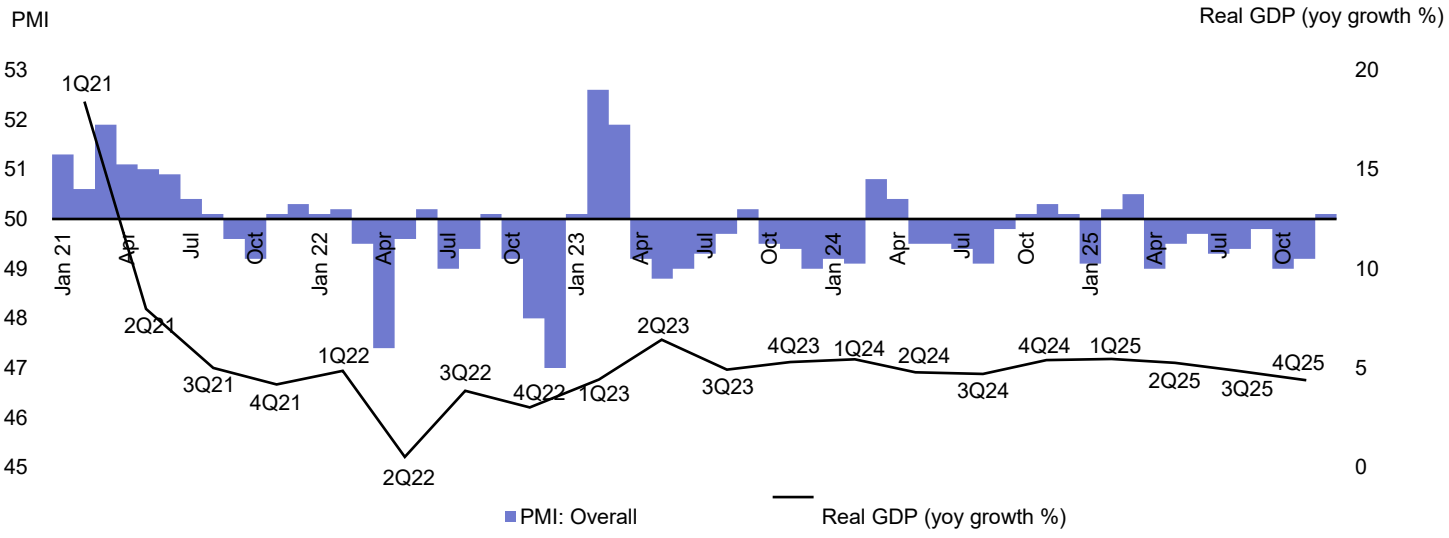
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 3: Headline PMI and all sub-indices, October to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 4: Headline PMI and real GDP growth, January 2021 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

2. What the PMI tells us about the performance of enterprises of different sizes

Large enterprises on the mend

The PMI of 'large enterprises' fell from 49.9 in October to 49.3 in November but rebounded to 50.8 in December. The latest index reading has risen above the neutral level of 50, indicating renewed expansion among large enterprises.

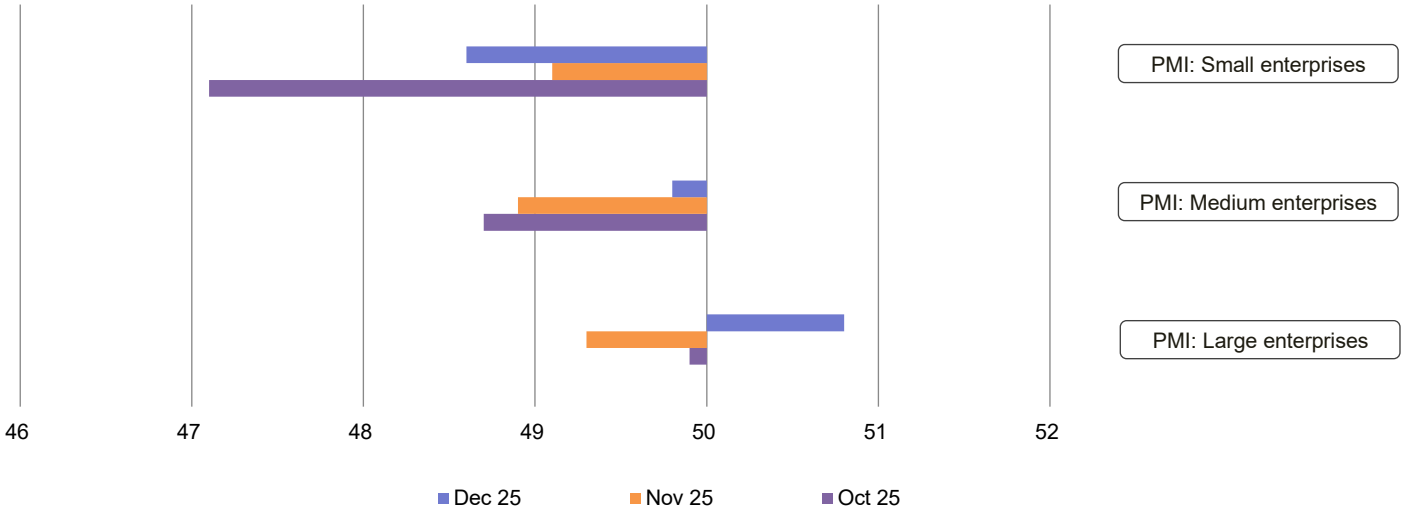
Small and medium enterprises continue to struggle

In contrast, the PMI of 'medium enterprises' picked up from 48.7 in October to 48.9 in November and 49.8 in December. Meanwhile, the PMI of 'small enterprises' rebounded from 47.1 in October to 49.1 in November, but then fell back to 48.6 in December.

Both 'small enterprises' and 'medium enterprises' recorded PMI readings below 50 throughout the quarter, signalling ongoing operational challenges and contraction. However, the PMI of 'medium enterprises' reached a nine-month high of 49.8 in December, suggesting a slowdown in the rate of contraction. (See exhibit 5)

Large enterprises have fared better than small and medium enterprises, and this trend has persisted for several years. We expect it to continue in the near term.

Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, October to December 2025



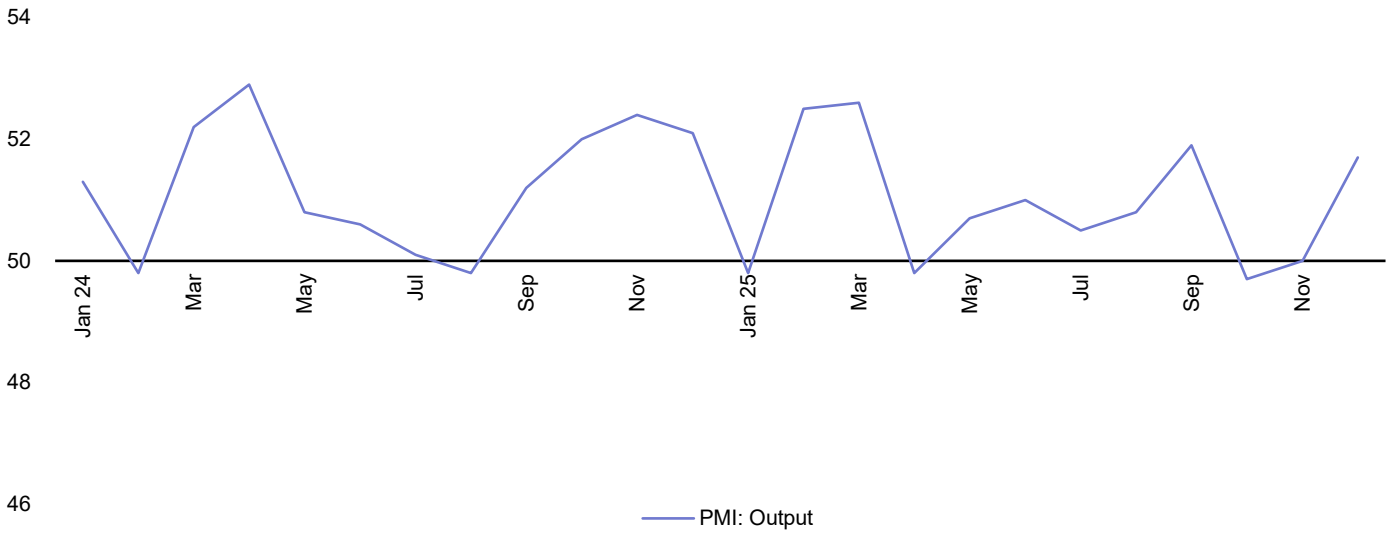
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

3. What the PMI tells us about manufacturing production

Manufacturing output resumes expansion

The output index climbed from 49.7 in October to 50.0 in November and further to 51.7 in December. The index readings continued to rise and returned to expansionary territory in December, indicating a recent recovery in manufacturing production. (See exhibit 6)

Exhibit 6: Output index, January 2024 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

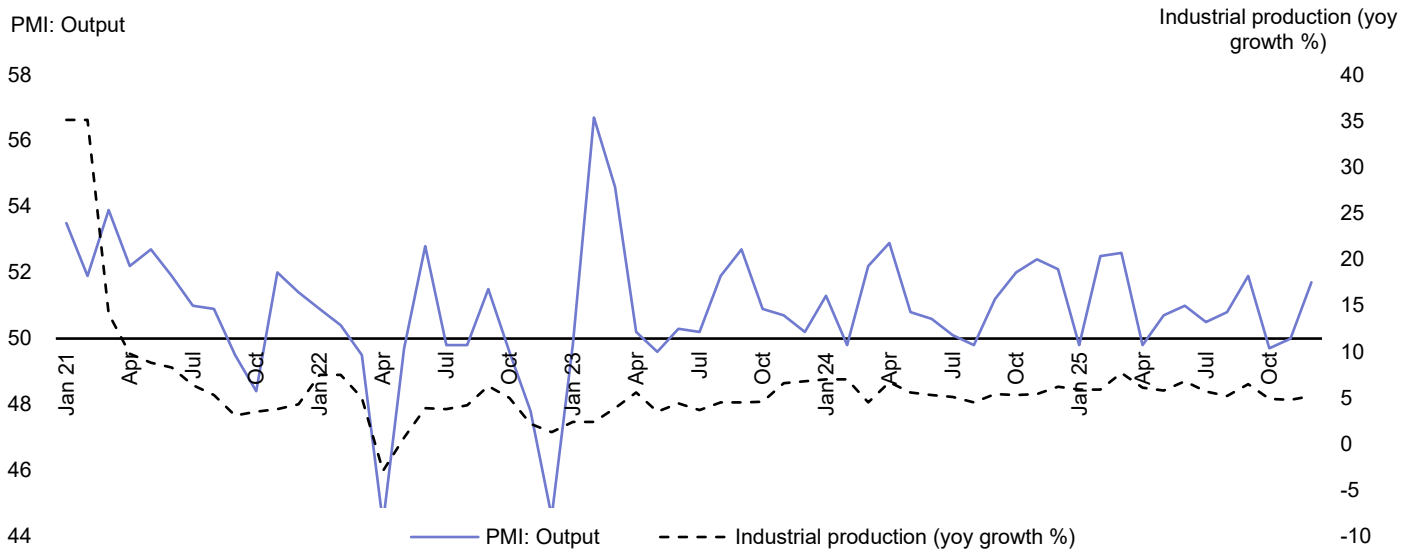
Manufacturing production to maintain stable growth in 1Q26

Exhibit 7 illustrates the correlation (with some lags) between the output index and the year-on-year growth of value-added of industrial output (VAIO). Looking ahead, a continued improvement in external demand bodes well for China's exports and industrial production. However, a high comparison base from the same period last year will keep the VAIO growth rate moderate, as Chinese manufacturers ramped up production and cargo shipments in 1Q25 in anticipation of potential additional tariffs from the Trump administration. Overall, we project that China's VAIO will maintain a steady growth of 5.0% yoy in 1Q26.

Other challenges facing Chinese manufacturers include global economic uncertainties stemming from Trump's policies, the Chinese government's efforts to address overproduction in key sectors and reduce industrial carbon emissions, and intense competition in both domestic and international markets.

We expect that China's VAIO will maintain a steady growth of 5.0% yoy in 1Q26. While a continued improvement in external demand bodes well for China's exports and industrial production, a high comparison base from the same period last year will keep the VAIO growth rate moderate.

Exhibit 7: Output index and industrial production growth, January 2021 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

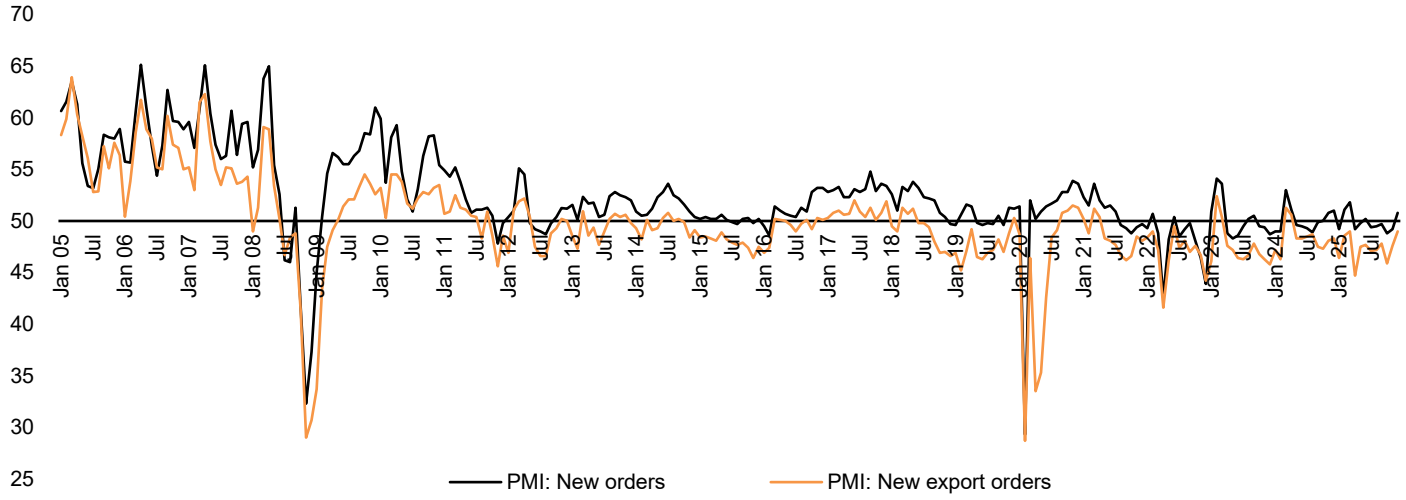
4. What the PMI tells us about overall market demand

Overall market demand recovers

The new orders index increased from 48.8 in October to 49.2 in November and further to 50.8 in December. The index readings continued to rise and returned to expansionary territory in December, indicating a recent recovery in overall market demand.

Meanwhile, the new export orders index rebounded from 45.9 in October to 47.6 in November and 49.0 in December, suggesting a smaller decline in new export orders. (See exhibit 8)

Exhibit 8: New orders index and new export orders index, January 2005 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

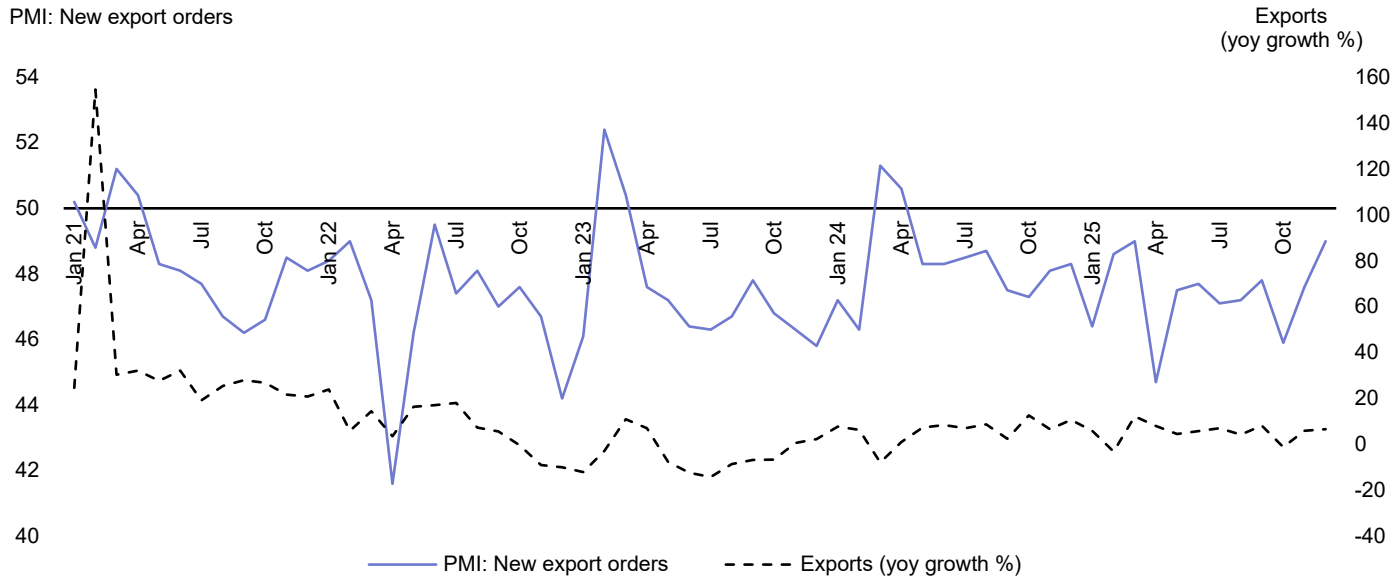
China's exports expected to see low single-digit growth in 1Q26

Exhibit 9 plots the new export orders index against the year-on-year growth rates of China's exports. From exhibit 10, it is evident that the new export orders index has been strongly correlated with external economic conditions. The OECD's G20 composite leading indicator[1] has risen recently, suggesting an improvement in external demand for China's exports. However, this boost may be partially offset by a high comparison base from 1Q25, when Chinese exporters frontloaded shipments in anticipation of potential additional tariffs from the Trump administration. Overall, we forecast that China's exports will experience a low single-digit growth in 1Q26.

We forecast that China's exports will see a low single-digit growth in 1Q26, as an increase in external demand is partly offset by a high comparison base from 1Q25.

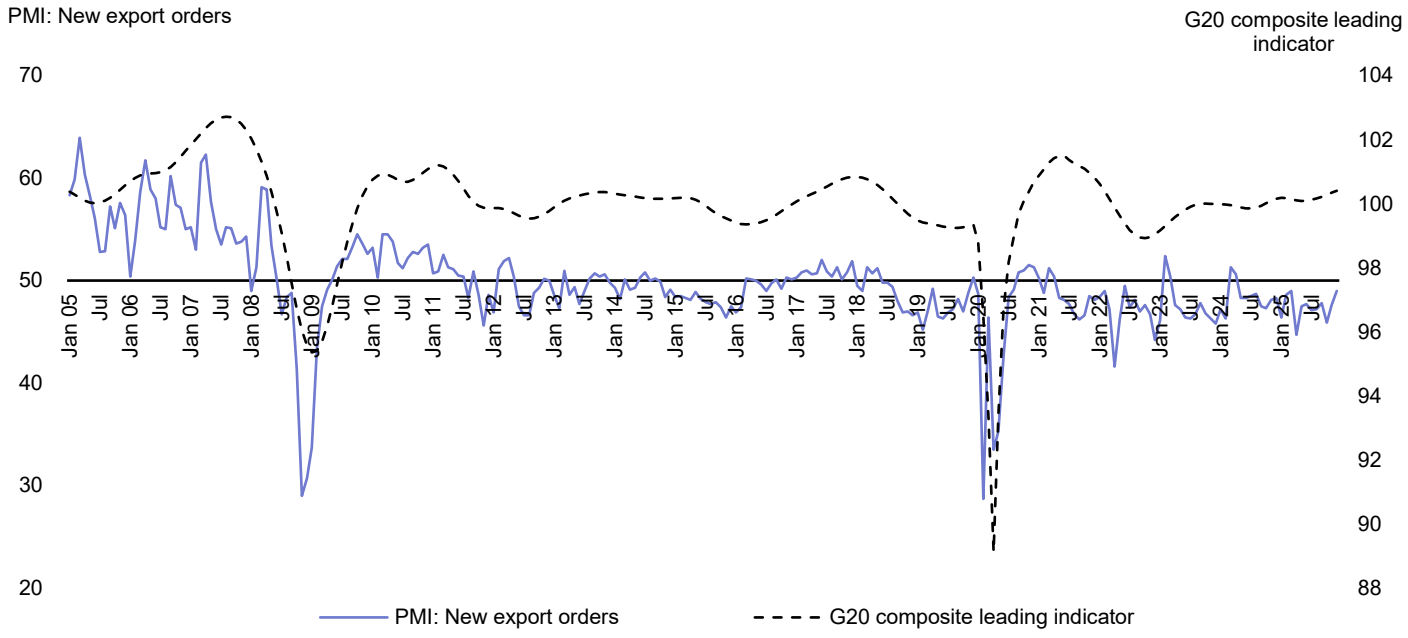
1 The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, South Africa, Turkey, UK, and the US.

Exhibit 9: New export orders index and export growth, January 2021 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, China Customs

Exhibit 10: New export orders index and G20 composite leading indicator, January 2005 to December 2025



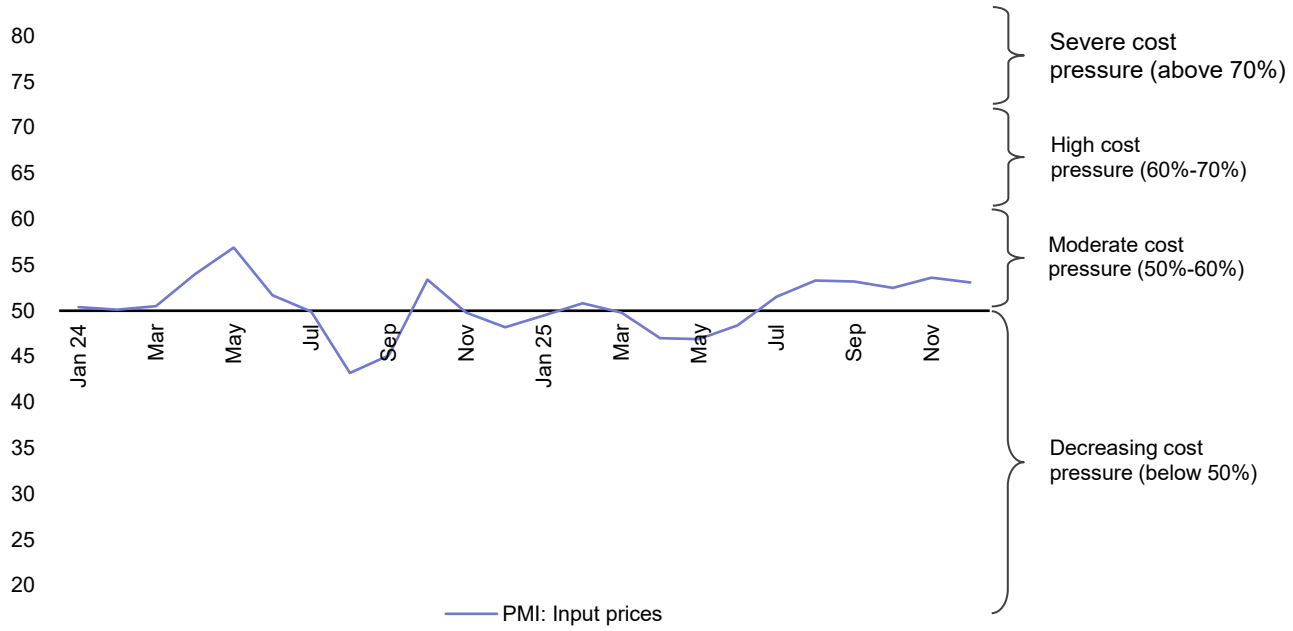
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

5. What the PMI tells us about upstream and midstream prices

Rising upstream prices exert cost pressure on manufacturers

The input prices index jumped from 52.5 in October to 53.6 in November and remained high at 53.1 in December. The index readings stayed above the neutral level of 50 throughout the quarter, indicating a sustained increase in production input prices. This would increase cost pressure on Chinese manufacturers. (See exhibit 11).

Exhibit 11: Input prices index, January 2024 to December 2025

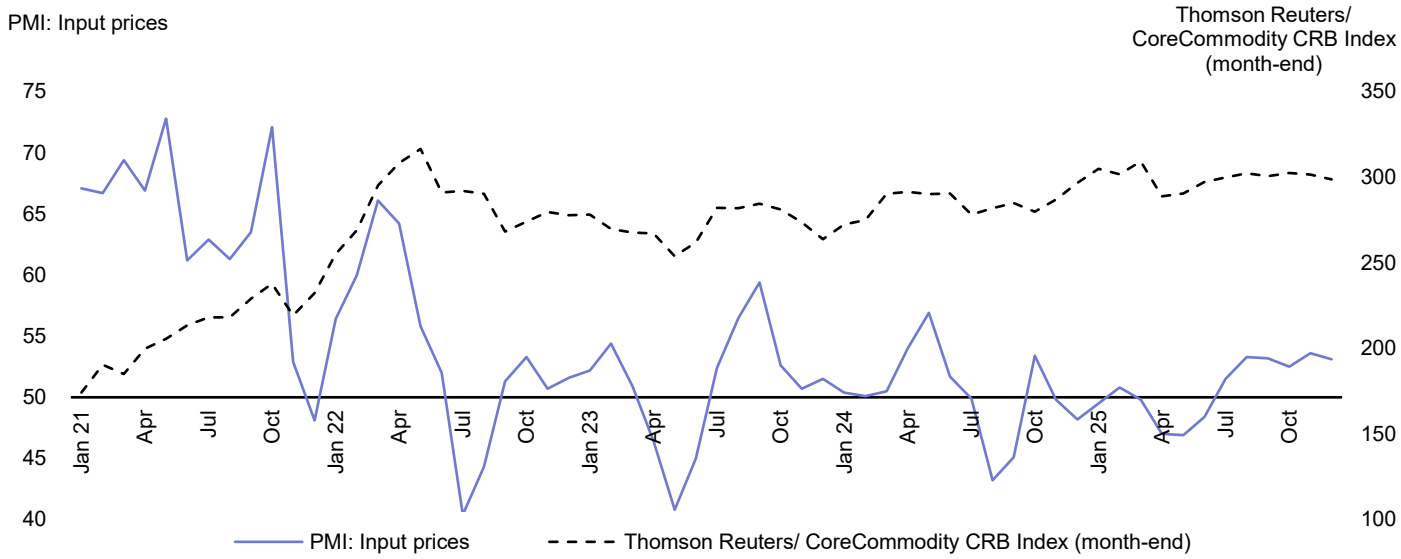


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

To see the extent to which input costs of Chinese manufacturers are affected by global commodity prices, exhibit 12 puts together the input prices index and the Thomson Reuters/ CoreCommodity CRB index.[2]

2 The Thomson Reuters/ CoreCommodity CRB Index, which comprises 19 commodities such as crude oil, aluminum, corn, cotton, gold, natural gas, soybeans, etc, has served as one of the most recognized measures of global commodity prices.

Exhibit 12: Input prices index and Thomson Reuters/ CoreCommodity CRB Index, January 2021 to December 2025

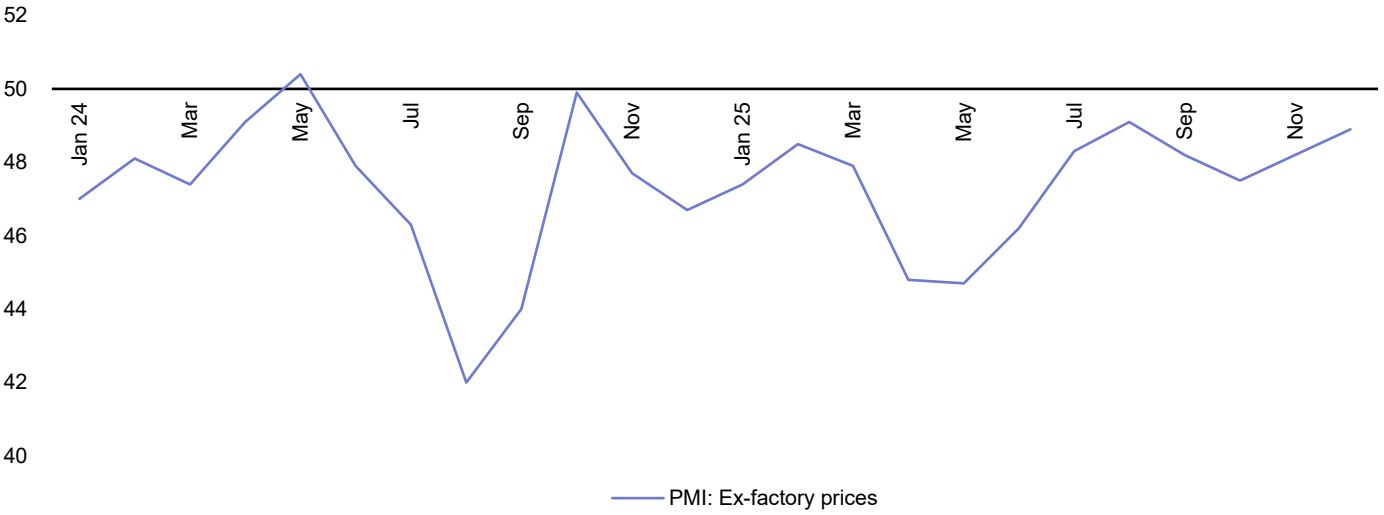


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

Manufacturers continue to lower ex-factory prices

The ex-factory prices index rebounded from 47.5 in October to 48.2 in November and 48.9 in December. Despite this slight pick-up, the index readings remained in contractionary territory through the quarter, indicating that Chinese manufacturers have been continuously lowering the ex-factory prices of their finished products. Combined with rising input costs, this suggests that profit margins for manufacturers are shrinking. (See exhibit 13)

Exhibit 13: Ex-factory prices index, January 2024 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

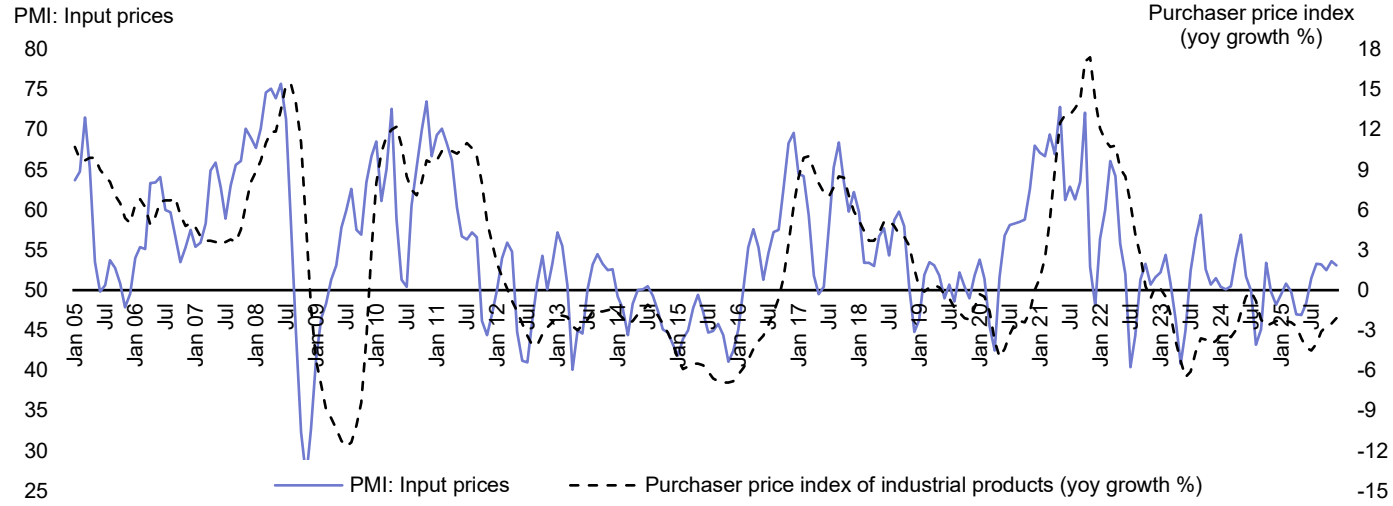
Downward pressure on input prices and ex-factory prices to ease in 1Q26

Exhibit 14 shows that the input prices index serves as a useful leading indicator for upstream prices. To illustrate the relationship between the input prices index and 'midstream' prices, we plot the input prices index against the year-on-year growth of the producer price index (PPI)[3] in exhibit 15.

Looking ahead, we expect that the year-on-year growth rates for both the purchaser price index and the PPI will remain negative but improve slightly in 1Q26, as the Chinese government has prioritized addressing overproduction and excessive 'involution-style' competition in key sectors, which is likely to boost upstream and midstream prices.

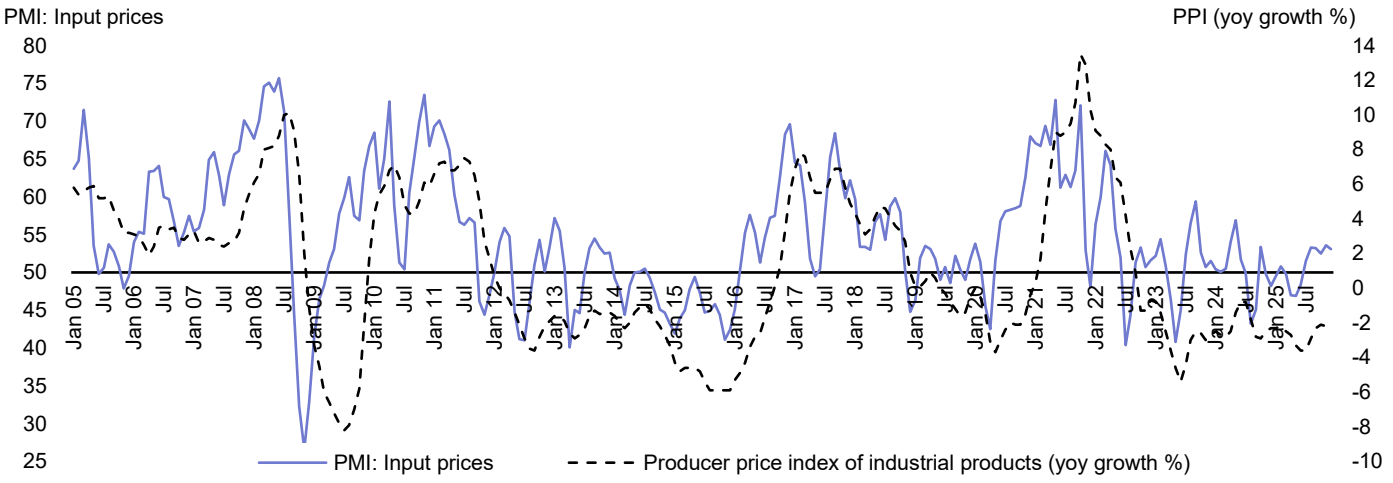
We expect that the year-on-year growth rates for both the purchaser price index and the PPI will remain negative but improve slightly in 1Q26, as the government has prioritized addressing overproduction in key sectors.

Exhibit 14: Input prices index and purchaser price index of industrial products, January 2005 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 15: Input prices index and producer price index, January 2005 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

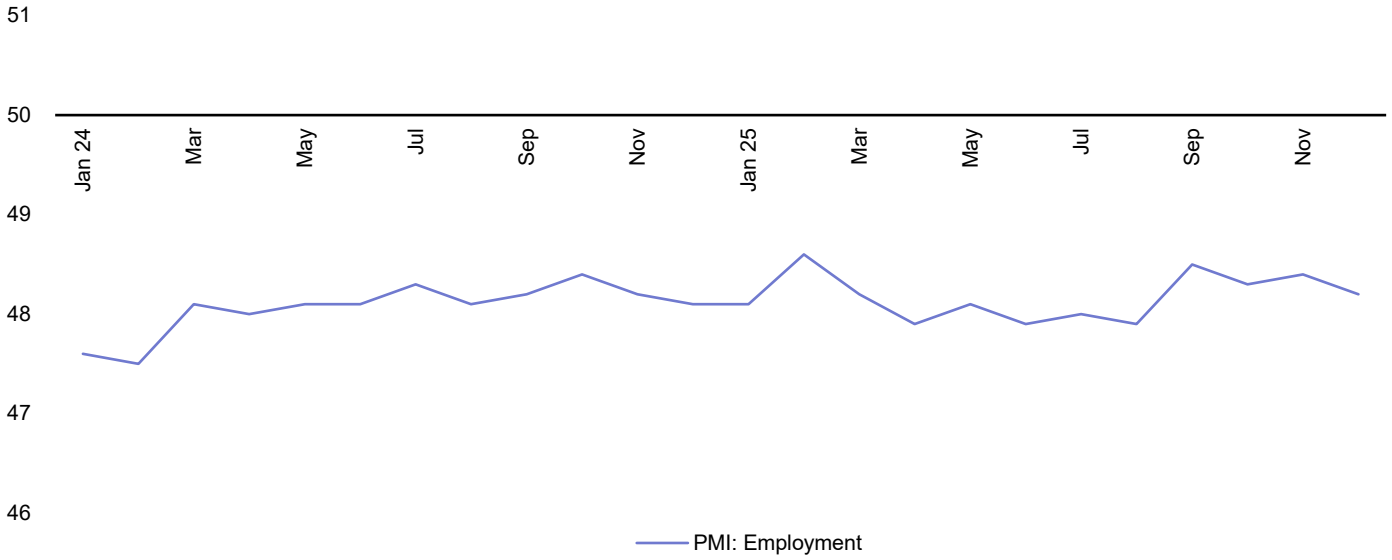
[3] The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

6. What the PMI tells us about manufacturing employment

Employment in the manufacturing sector slightly declines

The employment index remained low, fluctuating between 48.2 and 48.4 from October to December. This suggests a slight decrease in employment within the manufacturing sector. (See exhibit 16)

Exhibit 16: Employment index, January 2024 to December 2025

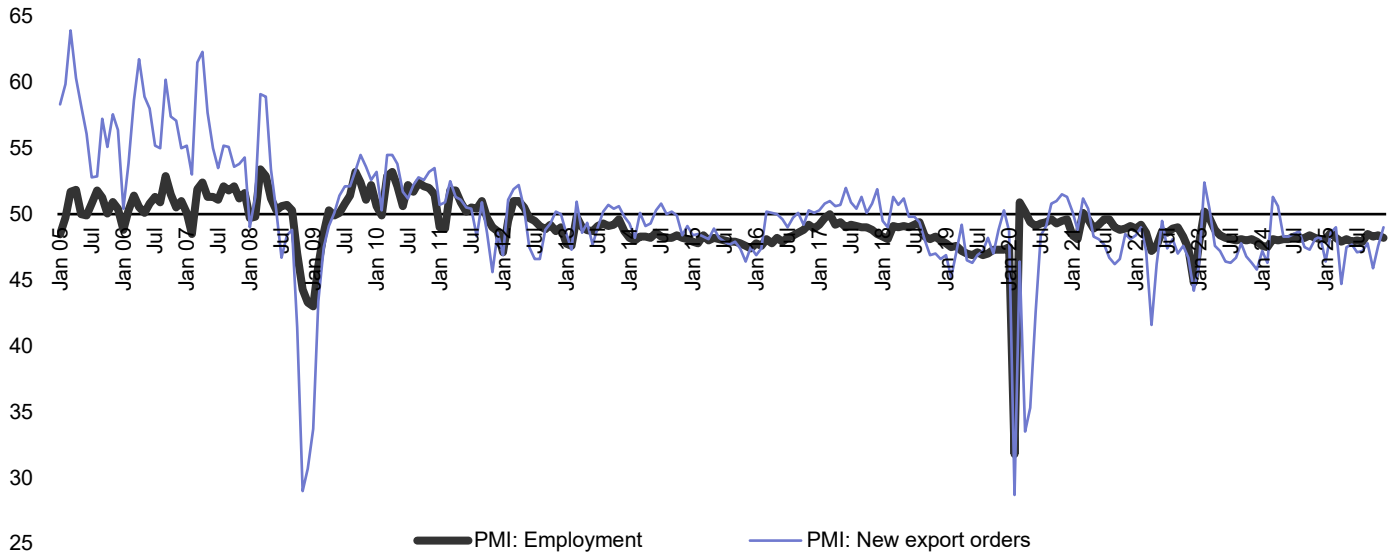


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 17 shows that the employment in China's manufacturing sector is heavily reliant on the export sector. Exhibit 18 and 19 provide insights into how the employment situation improves or deteriorates in relation to the manufacturing sector and the overall economy. While a steady growth in exports and the broader Chinese economy will provide support, the Chinese New Year holiday is expected to negatively impact employment. Overall, we anticipate a slight decline in manufacturing employment in 1Q26.

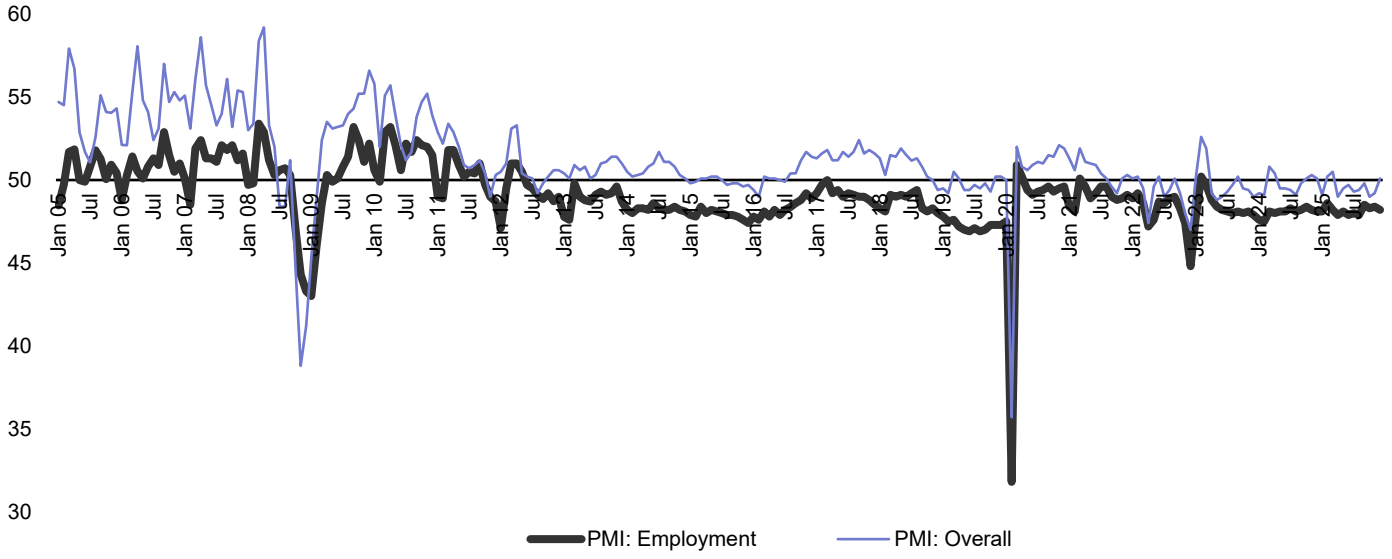
We anticipate a slight decline in manufacturing employment in Q1 2026, as the Chinese New Year holiday is expected to negatively impact employment, offsetting the support provided by a steady growth in exports and the broader Chinese economy.

Exhibit 17: Employment and new export orders, January 2005 to December 2025



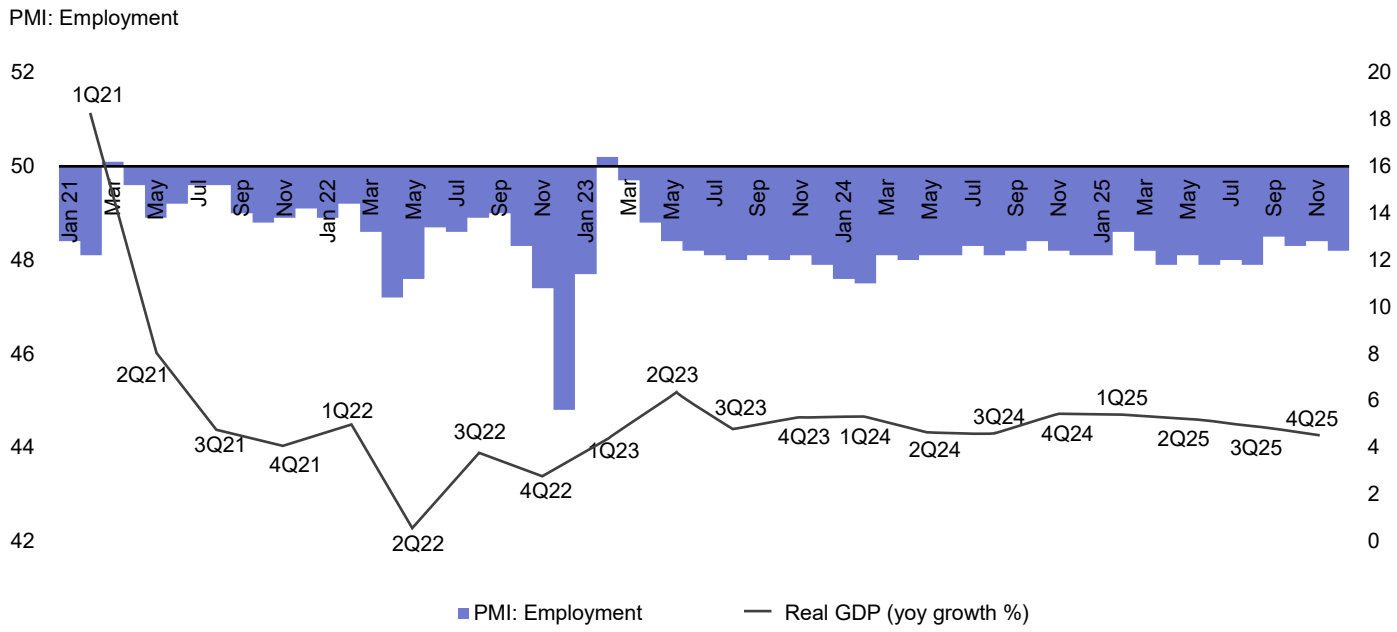
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 18: Employment index and headline PMI, January 2005 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 19: Employment index and real GDP growth, January 2021 to December 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

About China Manufacturing PMI:

China Manufacturing Purchasing Managers' Index (PMI) provides an early indication each month of economic activities in the Chinese manufacturing sector. It is jointly published by China Federation of Logistics & Purchasing (CFLP) and the National Bureau of Statistics (NBS). The HKUST Li & Fung Supply Chain Institute is responsible for drafting and disseminating the English PMI report.

Every month questionnaires are sent to 3,200 manufacturing enterprises all over China. The data presented herein is compiled from the enterprises' responses about their purchasing activities and supply situations. CFLP makes no representation regarding the data collection procedures, nor does it disclose any data of individual enterprises. The PMI should be compared to other economic data sources when used in decision-making.

3,200 manufacturing enterprises in 31 industries from Eastern, Northeastern, Central and Western China are surveyed. The sampling of the enterprises involves the use of Probability Proportional to Size Sampling (PPS), which means the selection of enterprises surveyed is largely based on each industry's contribution to GDP, and the representation of each geographical region.

There are 13 sub-indicators in the survey: Output, New Orders, New Export Orders, Backlogs of Orders, Stocks of Finished Goods, Purchases of Inputs, Imports, Input Prices, Stocks of Major Inputs, Ex-factory Prices, Employment, Suppliers' Delivery Time and Business Expectations. An index reading above 50 indicates an overall positive change in a sub-indicator; below 50, an overall negative change.

The PMI is a composite index based on the seasonally adjusted indices for five of the sub-indicators with varying weights: New Orders—30%; Output—25%; Employment—20%; Suppliers' Delivery Time—15%; and Stocks of Major Inputs—10%. A PMI reading above 50 indicates an overall expansion in the manufacturing sector; below 50, an overall contraction.

Currently there are more than twenty countries and regions conducting the PMI survey and compilation, based on an internationally standardized methodology.

About the Organizations:

China Federation of Logistics & Purchasing

China Federation of Logistics & Purchasing (CFLP) is the logistics and purchasing industry association approved by the State Council. CFLP's mission is to push forward the development of the logistics industry and the procurement businesses of both government and enterprises, as well as the circulation of factors of production in China. The government authorizes the CFLP to produce industry statistics and set industry standards. CFLP is also China's representative in the Asian-Pacific Logistics Federation (APLF) and the International Federation of Purchasing and Supply Management (IFPSM).

HKUST Li & Fung Supply Chain Institute

The HKUST Li & Fung Supply Chain Institute (Institute) accelerates the creation, global dissemination, and practical application of new knowledge for managing tomorrow's supply chains.

The Institute seeks to develop local and international talent in supply chain management through teaching, professional development, and exchanges at specialist conferences. It brings together leaders in industry, academia, and the public sector in a new collaboration for research, executive education and practice focused on innovation in business models, sustainable supply chain design, process re-engineering, and the rapid adoption of new technologies. These outcomes are vital in addressing the need for visionary, innovative supply chain management in the face of rapid technological advancements, disruption from geopolitical tensions, and concerns related to sustainability and climate.

Jointly established by HKUST and supply chain industry leader Li & Fung, the Institute brings together research excellence and industry expertise in supply chain management to drive real-world impact across the Greater Bay Area, Greater China, Asia, and globally, while contributing to Hong Kong's development as a multinational supply chain management center.