

PMI

Caixin China
General Manufacturing
PMI Press Release

2020.10



Caixin China General Manufacturing PMI™

Manufacturing PMI hits highest level since January 2011

October survey data pointed to a marked improvement in business conditions across China's manufacturing sector, with firms recording sharper rises in both output and total new work. However, growth in new export sales softened notably amid a resurgence of the coronavirus disease 2019 (COVID-19) virus across a number of export markets. Nonetheless, stronger overall market conditions led to an improvement in business confidence, which hit its highest since August 2014.

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 – rose from 53.0 in September to 53.6 in October. The reading signalled a marked improvement in business conditions that was the strongest since January 2011. The headline PMI has pointed to an improvement in the health of the sector for each of the past six months.

Supporting the higher PMI figure was a sharper increase in total new work during October. The latest upturn in overall sales was the sharpest since November 2010, with panellists widely commenting that market conditions continued to recover from the COVID-19 pandemic earlier in the year. Although new export work also rose further, the rate of growth slowed notably and was only marginal. There were reports that the pandemic and rising infection rates across external markets had dampened growth of new business from overseas.

The substantial increase in overall workloads led manufacturers to expand their output again in October, with the rate of growth among the sharpest seen over the past decade.

Greater inflows of new work also exerted further pressure on capacities, as shown by a sustained rise in the level of work-in-hand (but not yet completed). The rate of backlog accumulation was little-changed from September and solid. However, companies maintained a cautious approach to staff numbers in October amid reports of efforts to contain costs. Consequently, firms raised their staffing levels only slightly.

Manufacturers raised their buying activity in response to higher operational requirements, and at a solid pace. As a result, stocks of purchased items rose at a rate that, though modest, was the quickest since July 2016. The delivery of goods to clients meanwhile led to a slight dip in inventories of post-production items.

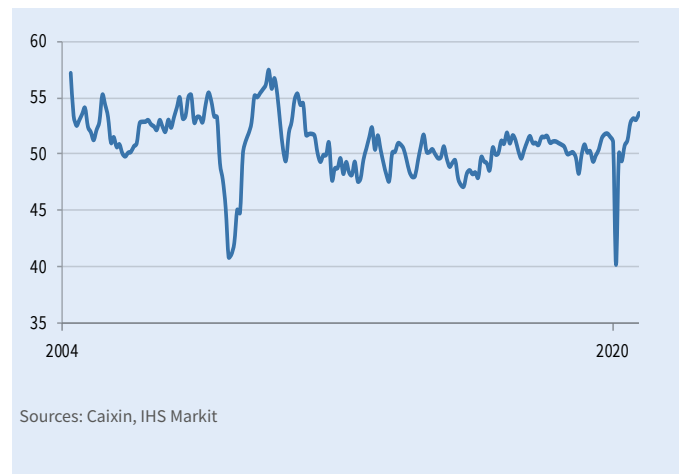
The time taken for purchased inputs to arrive at Chinese manufacturers lengthened slightly in October. Some firms mentioned that low stock levels and staff shortages at suppliers had weighed on overall vendor performance.

Latest data showed a weaker increase in average input costs during October, with operating expenses rising modestly overall. Panel members generally linked the upturn to an increase in raw material prices. Companies partially passed on higher cost burdens to clients by raising their average selling prices. The rate of charge inflation was mild, however, despite quickening since September.

Reflective of the strong improvement in overall market conditions, business confidence regarding the 12-month outlook for output improved to its highest since August 2014. Panel members generally expect the impact of the pandemic to subside and global economic conditions to recover over the next year.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

Output rises sharply amid quickest increase in total new work for nearly a decade

Pandemic dampens growth of new export orders, however

Business confidence reaches highest since August 2014

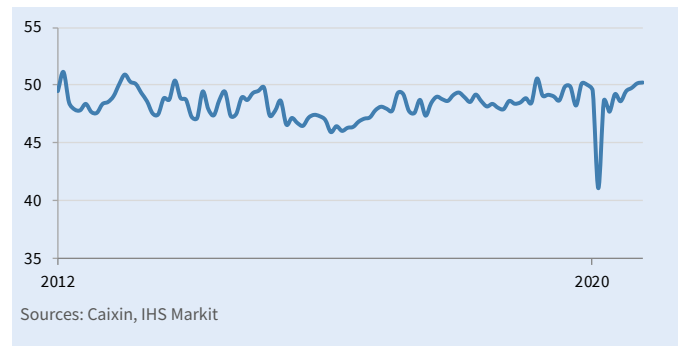
New Export Orders Index

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 rose to 53.6 in October, the highest reading since January 2011. That indicates the post-coronavirus manufacturing recovery continued to pick up speed.

1. Manufacturing continued to recover, with both demand and supply being active, as fallout from the Covid-19 pandemic faded. The subindex of total new orders rose sharply in expansionary territory, hitting the highest since November 2010. Strong demand accelerated a recovery in production, with the output subindex remaining in expansionary territory for eight straight months. The subindex was up slightly from the previous month, reaching the third-highest level since January 2011. In contrast, overseas demand recovered at a much slower rate than in September, though the measure for new export orders stayed in expansionary territory for the third month in a row. The second wave of coronavirus infections in Europe and the third wave in the U.S. have significantly suppressed China’s overseas demand.

2. The employment subindex stayed in expansionary territory for the second consecutive month, but still came in just marginally above 50 — the threshold for expansion — indicating that the job market remained generally weak. Over the past half year, the markedly weak recovery of employment compared with production and demand showed companies were cautious about hiring. Although the market recovered steadily, many enterprises did not add staff in an effort to keep costs under control.

3. There have been clear signs that manufacturers were adding inventory. Enterprises continued to increase purchases and their raw material inventories grew in response to the fast growth in

orders. In October, both the measures for quantity of purchases and stocks of purchases continued to rise, reaching the second-highest and highest levels in over seven and 10 years, respectively. Stocks of finished goods shrank slightly in October, and suppliers needed a little more time to deliver goods amid strong demand. Prices remained more or less stable as the gauges for input and output prices grew slightly. Input costs rose at a slower rate, while growth in output prices accelerated, indicating that enterprises’ profitability improved marginally. Surveyed enterprises said that rising demand boosted their willingness to raise prices.

4. Manufacturers remained confident about the economy, as the gauge for future output expectations rose sharply to the highest level since August 2014. Nearly a third of manufacturers in the survey believed their businesses would get better in the next 12 months. Surveyed members were confident about domestic epidemic controls and a continuous economic recovery.

“To sum up, recovery was the word in the current macro economy, with the domestic epidemic under control. Manufacturing supply and demand improved at the same time. Enterprises were very willing to increase inventories. Prices tended to be stable. Business operations improved, and entrepreneurs were confident.

“But the twists and turns of overseas infections remained a headwind for exports. The full recovery of employment depends on stronger and more-lasting business confidence. As the economic indicators for consumption, investment and industrial output for September were generally better than expected, it is highly likely that the economic recovery will continue for the next several months. But there are still many uncertainties outside of China, so policymakers need to be cautious about normalizing post-coronavirus monetary and fiscal policies.”



Survey methodology

The Caixin China General Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 500 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@ihsmarkit.com.

Survey dates and history

Data were collected 9-21 October 2020.

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.

<https://ihsmarkit.com/products/pmi.html>

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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