

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

Manufacturing PMI slips to nine-month low in February

PMI data revealed a further, albeit softer, improvement in the health of China's manufacturing sector in February. Notably, companies recorded slower rises in both output and new work for the third month running. Firms often commented that the coronavirus disease 2019 (COVID-19) pandemic had weighed on demand and impacted business operations in the latest survey period. New export work declined for the second month running, while raw material shortages and transport delays led to a marked lengthening of suppliers' delivery times. Nonetheless, companies were strongly optimistic that output will rise over the next year amid hopes of a rebound in global economic conditions.

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 – slipped from 51.5 in January to 50.9 in February, to signal a marginal improvement in operating conditions. Notably, the rate of improvement was the slowest seen since the current period of recovery began last May.

The fall in the headline index was partly driven by a slower expansion of output. The latest increase in production was modest overall, with growth having eased to a ten-month low. Panel members frequently mentioned that output rose in line with client demand. Total new work expanded at the weakest rate for nine months and only marginally overall. While there were reports of firmer demand conditions, the pandemic and recent rise in cases globally had reportedly weighed on overall sales growth. Notably, new export business declined for the second month in a row.

Firms maintained a cautious approach to staffing levels, with employment falling modestly in February. Concurrently, there seemed little pressure on operating capacities, as backlogs of work fell for the first time since last May, albeit marginally.

In line with the trend for new work, buying activity rose only slightly. At the same time, firms registered a second monthly drop in inventories of purchased items, while stocks of finished goods rose marginally.

Stock shortages and restrictions around travel continued to inhibit supplier performance in February. Notably, lead times for inputs lengthened to the greatest extent for nearly a year.

Greater prices for raw materials and higher transport costs led to a further substantial rise in input costs. As a result, prices charged by manufacturers rose solidly as companies looked to partially pass on higher cost burdens to customers.

Manufacturers in China were generally confident that output would increase over the next 12 months. Furthermore, the degree of positive sentiment was the second-highest in six-and-a-half years, supported by forecasts of rising client demand globally once the pandemic comes to an end and planned product releases.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

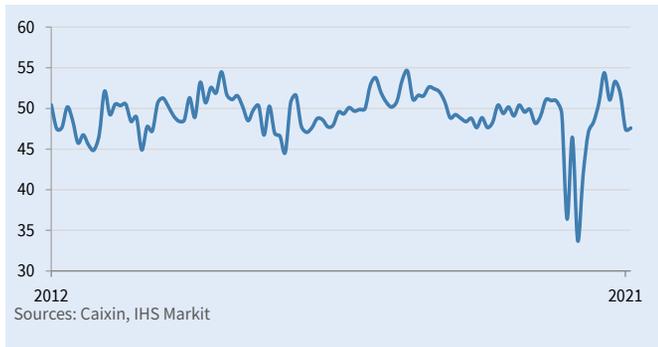
Output expands modestly amid notably softer rise in new work

Pandemic weighs on export sales and supplier performance

Business confidence improves on hopes of global economic recovery in months ahead

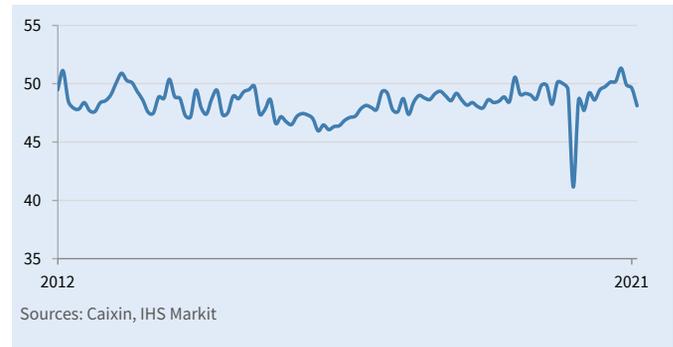
New Export Orders Index

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 fell to 50.9 in February and stayed in positive territory for 10 straight months, indicating that the economic recovery in the manufacturing sector continued. But the effect of the recovery further weakened as the reading declined for a third straight month, falling to the lowest since May.

1. Both supply and demand in the manufacturing industry continued to expand, albeit at a slower pace. The subindexes for output and total new orders fell to the lowest levels in 10 months and nine months, respectively. Overseas demand continued to drag down overall demand as the measure for new export orders remained deep in negative territory for the second consecutive month. Surveyed manufacturers highlighted fallout from domestic flare-ups of Covid-19 in the winter as well as the overseas pandemic.

2. The job market remained under pressure. The subindex for employment fell for a third straight month, remaining in contractionary territory for the same period. Companies were not in a hurry to fill vacancies. It is also worth noting that backlogs of work fell for the first time in nine months, adding to evidence that demand was sluggish.

3. Inflationary pressure continued to increase as price measures stayed high. The gauge for input costs was well above 50, hitting highs not seen since December 2017 over the last three months. Surveyed companies said the prices of raw materials, especially industrial metals, continued to rise fast, and the price of transportation also increased. The rise in costs had to some extent been transmitted to the demand side, with output prices still rising sharply last month and increasing for the past 10 months.

4. The market became more optimistic. Manufacturers were confident that both the domestic and overseas epidemics would fade as the gauge for future output expectations jumped to the second highest level since August 2014.

"To sum up, the momentum of the manufacturing recovery further weakened as the supply and demand both rose at a slower clip, adding pressure on employment. The prices of raw materials continued to increase and inflationary pressure continued to grow. Despite the headwinds mentioned above, manufacturers became more optimistic about the outlook for their businesses. The confidence mainly came from the accumulation of the experience in fighting the pandemic over the past year, as well as the expectation that the winter Covid-19 flare-ups were coming to an end.

"Now the major challenge for policymakers will be maintaining the post-coronavirus recovery while paying close attention to inflation."



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 2-18 February 2021.

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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