

PMI

Caixin China
General Manufacturing
PMI Press Release

2022.09



Caixin China General Manufacturing PMI™

Output and demand dampened by COVID-19 containment measures

Business conditions across China's manufacturing sector deteriorated modestly in September, as efforts to contain the COVID-19 virus weighed on performance. Total new business dropped for the second month in a row, which led to a renewed fall in output, while firms also trimmed their purchasing activity and inventories. Reduced demand for inputs placed further downward pressure on prices, with input costs falling at the quickest rate since the start of 2016. Companies often looked to pass on any cost savings to clients to help improve sales, which led to the quickest fall in selling prices since December 2015.

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 – declined from 49.5 in August to 48.1 in September, to signal a back-to-back deterioration in the overall health of the sector. The reading was consistent with only a mild rate of contraction, however.

A key factor driving the headline index lower was a faster fall in new orders during September. New business fell for the second month in a row, and at the quickest rate since April, with panel members often commenting that restrictions around travel and operations had dampened customer demand. Foreign sales also fell again, and at a solid rate that was the fastest for four months.

Disruptions to operations due to COVID-19 restrictions, including temporary closures, alongside softer customer demand led to the first fall in output for four months, albeit one that was only modest. There were also reports of difficulties sourcing inputs due to restrictions around logistics.

Subdued demand conditions and lower production requirements led firms to cut back on their purchasing activity in September, with the rate of decline the quickest in four months. Inventories of both purchased and finished goods also fell, though rates of depletion were only marginal.

The reduction in operational requirements also impacted employment across the sector, which fell for the sixth month running. Though modest, the rate of decline was the quickest seen since April 2020. There were also reports that some staff were unable to go to their workplace due to COVID-19 restrictions.

Although workforce numbers fell, firms reported little pressure on operating capacities, as backlogs of work fell slightly at the end of the third quarter. Panel members often mentioned that reduced intakes of new orders had enabled them to work through outstanding business.

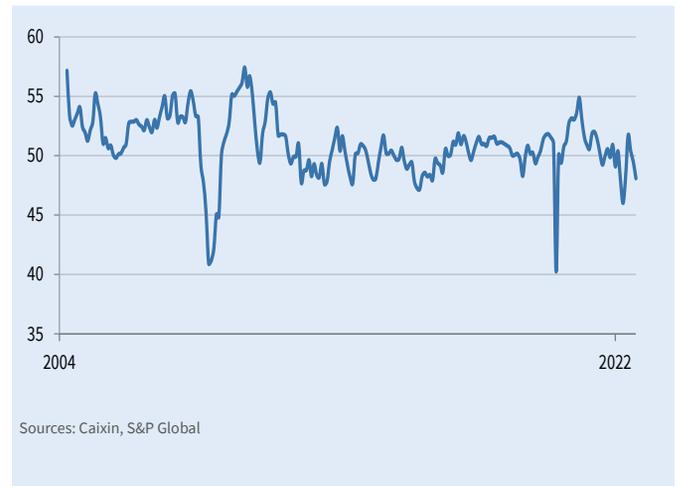
Measures to contain the COVID-19 virus also weighed on supplier performance in September. Though only modest, the rate at which lead times lengthened was the most pronounced for three months.

Cost pressures continued to ease in September, with a number of firms commenting that market prices for some materials had fallen due to weaker demand. The rate of decrease quickened slightly on the month, and was the fastest seen since January 2016. Companies often looked to pass on lower costs to clients to help stimulate sales, with the rate of discounting accelerating to a solid pace that was the steepest since the end of 2015.

Concerns over potential repeated outbreaks of COVID-19 and the prolonged use of containment measures weighed on optimism towards future output. Notably, the level of positive sentiment slipped to its lowest since November 2019.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

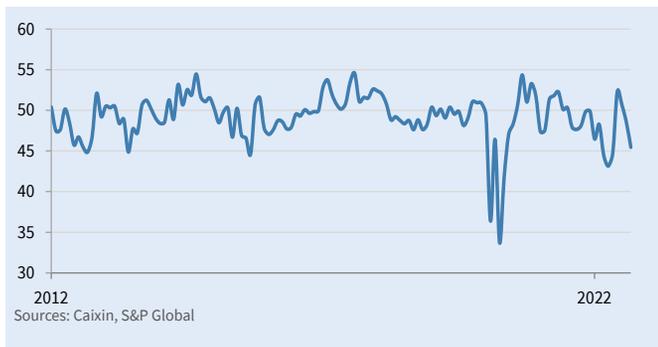
Production falls for first time in four months amid quicker drop in sales

Firms cut back on purchasing activity and inventories

Selling prices fall at quickest rate since December 2015

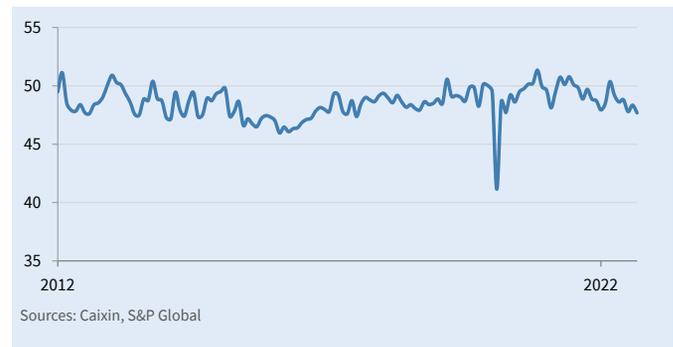
New Export Orders Index

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 in September fell 1.4 points from the previous month to 48.1, marking the second consecutive month of contraction. Surveyed enterprises said the pandemic was still the greatest factor of impact.

“Manufacturing supply and demand contracted simultaneously. Although the Covid situation improved in Hainan province, the severity of outbreaks worsened in many other areas –and containment measures limited the supply and demand in manufacturing.

“The gauges for production and total new orders were both lower than 50, and recorded new lows in the past four and five months, respectively. External demand also contracted sharply, with the reading for new export orders the lowest since May.

“Employment continued to contract, as firms cut staff on weak demand, and some employees couldn’t return to work on time due to Covid controls. In September, the reading for employment fell below 50 for the sixth consecutive month and for the 13th time in the past 14 months.

“Price indices continued to fall. With declines in the prices of bulk commodities, especially steel, input costs for producers of intermediate and investment goods fell sharply, and the gauge for input prices sank to the lowest reading since January 2016.

“Due to the impact of the market slump, firms, especially investment goods manufacturers, were eager to promote sales by cutting prices. In September, the gauge for output prices remained below 50 for the fifth consecutive month, and recorded the lowest reading since December 2015.

“Both purchases and inventories fell. Due to limited market demand,

manufacturers reduced the volume of purchases and at the same time cut inventories. The readings for quantity of purchases, inventories of purchased items, and stocks of finished goods all remained below 50. Covid controls also affected logistics, and suppliers needed more time to deliver their goods than the previous month.

“Entrepreneurs were much less optimistic. The measure for future output expectations, although still in expansionary territory, declined more than 3 points and marked the lowest reading since November 2019. The concerns of surveyed entrepreneurs still stemmed from reoccurring Covid outbreaks and the impact of related controls on the market.

“In general, the pandemic situation is still severe and complex, and the negative impact of Covid controls on the economy is still pronounced. In September, supply and demand in the manufacturing industry both contracted, the job market was weak, logistics and transportation were slightly sluggish, cost of production and prices charged continued to decline, and purchases and inventories fell slightly. Market optimism also dwindled significantly due to concerns about the economic outlook.

“Recently, there have been more factors that negatively affect economic development and the downward pressure on the economy has increased. Since September, there have been Covid outbreaks in many regions, with the number of confirmed cases shooting up in some key areas compared with the previous month. Demand in the manufacturing industry has been under pressure, while economic recovery has stood on shaky ground.

“At present, major problems in the economy are insufficient employment, sluggish demand, and unstable expectations. In view of this, policy implementation should focus on promoting employment, granting subsidies, boosting demand, and fostering market confidence by sending policy signals.”



Survey methodology

The Caixin China General Manufacturing PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 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 12-22 September 2022.

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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