

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

Manufacturing production growth slows in March

After output and new orders had risen solidly in February, Chinese manufacturers registered softer gains at the end of the first quarter of 2023. While the sustained upturn in demand supported a further increase in purchasing activity, inventories continued to fall as firms maintained a cautious approach to stock building. Employment also fell slightly compared to February.

Encouragingly, supplier performance improved for the second month running, which helped to ease cost pressures. Notably, input costs stabilised after rising in each of the prior five months. Business confidence regarding the one-year outlook for output also remained strongly positive.

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 – posted at the neutral level of 50.0 in March. This was down from an eight-month high of 51.6 in February to signal stable business conditions at the end of the first quarter.

A softer rise in manufacturing production was one key factor dampening the headline PMI figure. Growth of output was marginal overall, after rising solidly in the previous month. According to anecdotal evidence, production rose in line with client demand.

Total new orders likewise increased at a softer pace that was only slight. While a number of firms mentioned customer demand and numbers had improved amid the recent easing of pandemic measures, others experienced relatively sluggish sales, particularly from overseas. Notably, new export business fell back into decline in March, though the rate of contraction was mild overall.

After rising in February, manufacturing employment fell slightly in March. Panel members indicated that lower headcounts often reflected decisions not to replace voluntary leavers and efforts to trim costs. Capacity pressures across the sector were meanwhile relatively mild, with backlogs of work rising at a marginal rate that was slower than that seen in the previous month.

Purchasing activity rose modestly for the second straight month in March, with firms linking the latest upturn to the sustained rise in new work and increased production. However, the greater usage of existing inventories, partly due to high purchasing costs, led to a further reduction in inventories of pre-production items. Stocks of finished goods also fell slightly on the month.

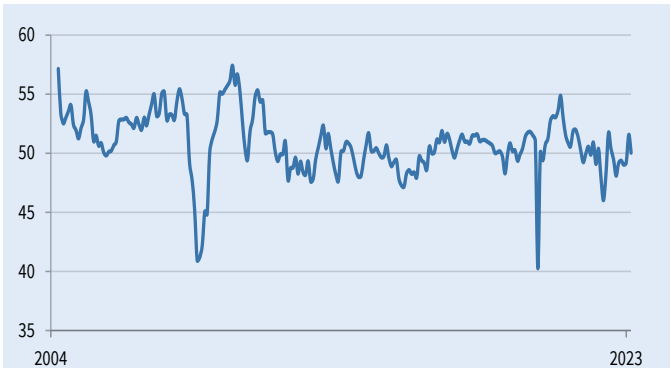
Improved supplier capacity and stock availability amid looser COVID-19 restrictions supported a further improvement in vendor performance during March. Though marginal, it was only the third time that lead times have shortened since 2018.

Input costs were unchanged in March, thereby ending a five-month sequence of inflation. According to panel members, lower costs for some materials, often due to greater supply, had helped to offset increases in other expenses. Average selling prices meanwhile fell fractionally, as a number of companies indicated that efforts to remain competitive had limited overall pricing power.

Finally, Chinese manufacturers remained highly upbeat that output would rise from current levels over the next year. Growth projections were supported by forecasts of improved market demand, higher client numbers and new product developments.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Caixin, S&P Global

Key findings:

- Softer rises in production and new orders
- Supply chains improve for second month running
- Optimism around the outlook remains strong

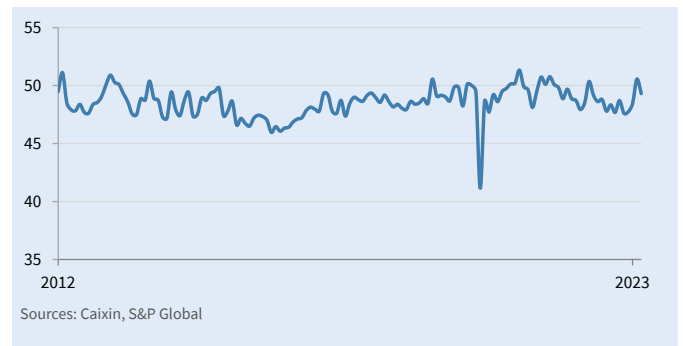
New Export Orders Index

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 March dropped 1.6 points from the previous month to 50, as manufacturing activity stabilized after a fast recovery in February.

“Growth in both manufacturing supply and demand softened last month. Although market conditions continued to improve after a Covid-19 policy shift, the marginal slowdown in recovery was evident. The subindexes for output and total new orders remained in expansionary territory, but both readings dipped by more than 2 points from February. External demand weakened amid a global economic downturn, with the gauge for new export orders falling back into contraction, the seventh time it was below 50 in the past eight months.

“Employment in the sector deteriorated, after rising above 50 for the first time since March 2022 in February. The labor market contracted again in March, as businesses were reluctant to hire more workers in order to reduce costs. Meanwhile, backlogs of work grew marginally, with the corresponding measure staying in expansionary territory.

“Inflationary pressure remained modest. The gauge for input prices dropped to the neutral level of 50, as the overall pressure on input costs was modest despite elevated prices of industrial metals and food. The reading for output prices slid into contractionary territory in March — the 10th time it was below 50 in the past 11 months — due to limited improvement in market supply and demand.

“Suppliers’ delivery times and logistics services continued to improve amid a post-Covid economic recovery. In March, the subindex for suppliers’ delivery times continued to stand above 50. But the willingness to replenish inventories among businesses remained subdued, with stocks of raw materials and inventories of finished products shrinking further.

“Manufacturers remained highly optimistic, with the reading for their expectations for future output significantly higher in March than the long-term average, as they expressed strong confidence in a post-Covid economic rebound.

“In a nutshell, the economy saw a marginal slowdown of recovery in March as the expansion in both manufacturing supply and demand significantly weakened from the previous month. Overseas demand dragged, employment worsened, inventories dropped slightly, prices remained largely stable, logistics was gradually restored to normal, and businesses were still highly confident in the economic outlook.

“Covid infections quickly reached a peak after China dropped its “zero-Covid” policy at the end of 2022, with the economy entering a period of fast recovery. In March, there were signs of weakening in the rebound, as reflected by data in the Caixin China General Manufacturing PMI survey. The foundation for economic recovery is not yet solid. Looking forward, economic growth will still rely on a boost in domestic demand, especially an improvement in household consumption. Only by working hard to stabilize employment, increase household income, and improve market expectations, can the government reach its goal of restoring and expanding consumption.”



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 10-23 March 2023.

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>

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Contact

Dr. Wang Zhe

Senior Economist

Caixin Insight Group

T: +86-10-8590-5019

zhewang@caixin.com

Ma Ling

Brand and Communications

Caixin Insight Group

T: +86-10-8590-5204

lingma@caixin.com

Annabel Fiddes

Economics Associate Director

S&P Global Market Intelligence

T: +44 1491 461 010

annabel.fiddes@spglobal.com

SungHa Park

Corporate Communications

S&P Global Market Intelligence

T: +82 2 6001 3128

sungha.park@spglobal.com

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