

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

New work expands at quickest rate for five months

China's manufacturing sector continued to expand in May, with firms reporting the strongest increase in new work for five months. As a result, production expanded further, though the rate of growth softened since April amid reports of material shortages and higher purchasing costs. Suppliers' delivery times lengthened solidly, which in turn drove a rapid increase in input prices. As part of efforts to contain costs, employment was broadly stable in May. At the same time, firms raised their factory gate prices at the quickest rate for over a decade.

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 – climbed from 51.9 in April to 52.0 in May, to signal a further improvement in operating conditions. Though mild, the upturn was the strongest recorded in the year to date.

Latest data signalled a further increase in demand for Chinese manufactured goods, with total sales rising at the fastest rate for five months. The expansion was supported by greater demand both at home and overseas. Notably, new export order growth improved to a six-month high in May.

Greater amounts of new work led to a further increase in Chinese manufacturing output during May. The rate of expansion softened since April and was moderate. Anecdotal evidence indicated that material shortages and higher purchasing costs had dampened the latest upturn in output.

The sustained improvement in customer demand led firms to raise their buying activity at a solid rate. However, average vendor performance deteriorated again in May, and at a faster pace than in April. According to panel members, greater demand for inputs and low stock levels at suppliers drove the latest deterioration in lead times.

Inventories data meanwhile pointed to a slight drop in stocks of both pre- and post-production items. The falls were often linked to the greater usage of current inventories for production and fulfilment of orders.

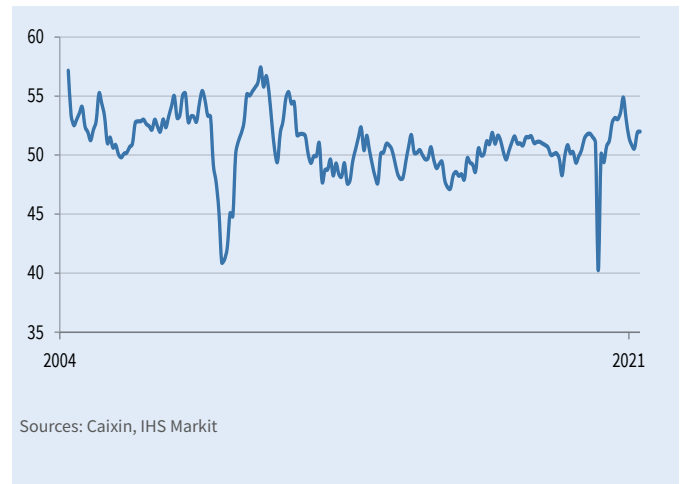
After rising slightly in April, employment was broadly unchanged in May. While some firms added to their payrolls in order to expand capacity, other companies expressed a more cautious approach to hiring due to rising input costs. Consequently, backlogs of work rose for the third month in a row.

Average cost burdens rose rapidly in the latest survey period, with the rate of inflation the quickest since December 2016. Panel members frequently mentioned that higher raw material costs pushed up expenses. Firms generally passed on greater input costs to clients by raising their output prices which increased at the fastest rate since February 2011.

Manufacturing firms remained confident that output would increase over the year ahead amid forecasts of rising customer demand and new product releases. That said, the level positive sentiment dipped to a four-month low, largely due to concerns over rising costs and pandemic-related uncertainty.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

- Total new business rises solidly, supported by stronger export sales
- Production growth softens slightly due to supply chain strain
- Staffing levels broadly stable as companies face steep rise in costs

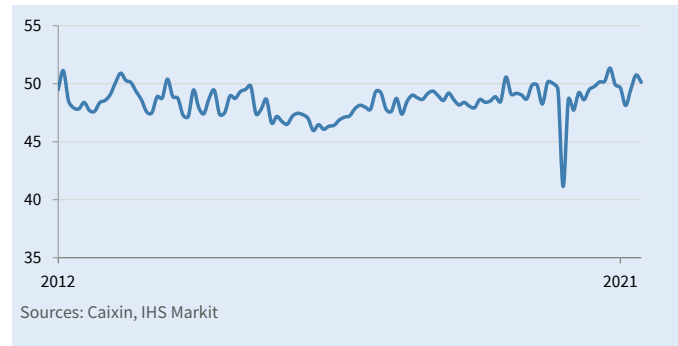
New Export Orders Index

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 came in at 52 in May, its 13th straight month of expansion. The reading was the highest this year so far and 0.1 point higher than the previous month, indicating a steady recovery of manufacturing activity.

1. Both supply and demand expanded, and demand was slightly stronger than supply. The subindex of total new orders hit its highest point in 2021 and the gauge for new export orders was at its highest since November. Supply was relatively weak as raw material shortages and high prices hindered expansion. The output subindex was slightly lower than in the previous month.

2. The job market remained stable. While some enterprises added staff amid strong demand, some others were cautious about hiring due to concerns about rising costs. The two groups offset each other, which resulted in few changes in the overall level of employment. The employment subindex came in just marginally above 50, the line between expansion and contraction.

3. Inflationary pressure grew as prices surged. The gauge for input costs pushed deeper into expansionary territory and rose to the highest reading since December 2016. The pressure of upstream costs was transmitted downstream. The measure for output prices jumped above 60, hitting the joint-highest point since November 2010. The measure for export prices rose to the highest in three years amid rising transportation costs.

4. Inventories decreased and delivery times grew. As demand was stronger than supply last month, stocks of purchased and finished goods both continued shrinking and delivery times became

substantially longer. The gauge for suppliers’ delivery times dropped deeper in contractionary range.

“To sum up, manufacturing expanded in May as the post-epidemic economic recovery kept its momentum. Both domestic and overseas demand were strong and supply recovered steadily. The job market remained stable. Manufacturers stayed confident about the business outlook as the gauge for future output expectations was higher than the long-term average. Inflation was still a crucial concern as prices continued rising.

“Policymakers mentioned rising commodity prices at the State Council executive meetings on May 12 and May 19 and issued instructions about stabilizing commodity supplies and prices. Inflationary pressure would limit the room for monetary policy maneuvers. The price transmission effect emerged as manufacturing output prices surged last month. Rapidly rising commodity prices began to disrupt the economy as some enterprises began to hoard goods, while some others suffered raw material shortages. Supply chains were also significantly affected.”



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 12-20 May 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>

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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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