

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

Operating conditions stabilise in September

Latest PMI data indicated that business conditions across China's manufacturing sector stabilised in September, after a slight deterioration in August. The improved headline index reading was supported by a renewed upturn in total sales and a softer reduction in output. At the same time, purchasing activity also returned to growth, while confidence towards the year ahead also strengthened. Supply chain delays persisted, however, amid sustained reports of material shortages. This in turn drove sharper increases in both input costs and output prices.

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 49.2 in August to 50.0 in September. This indicated that business conditions stabilised at the end of the third quarter, after a slight deterioration in the previous month. Nonetheless, the latest reading was the second-lowest seen for the past 17 months.

The higher headline index figure was partly driven by a renewed upturn in overall sales during September. Though only slight, it was the first time new work had increased for three months. Underlying data suggested this was largely driven by firmer domestic demand, as export sales continued to decline. A number of companies commented on improved customer numbers.

Although production fell for the second month in a row in September, the rate of decline eased to only a marginal pace. Firms indicated that relatively subdued demand and material shortages had weighed on production.

Efforts to improve efficiency contributed to a slight drop in employment in September. Rising workloads placed further pressure on capacity, however, as highlighted by a solid rise in backlogs of work. Notably, the rate of accumulation was the quickest since March 2020, with firms mentioning that material shortages and shipping delays had limited their ability to process and complete orders.

Manufacturers indicated a further lengthening of delivery times for inputs during September. The rate at which lead times increased was only modest, however. The deterioration in vendor performance was often linked to limited stock availability, transportation delays due to the pandemic and stretched capacity at suppliers.

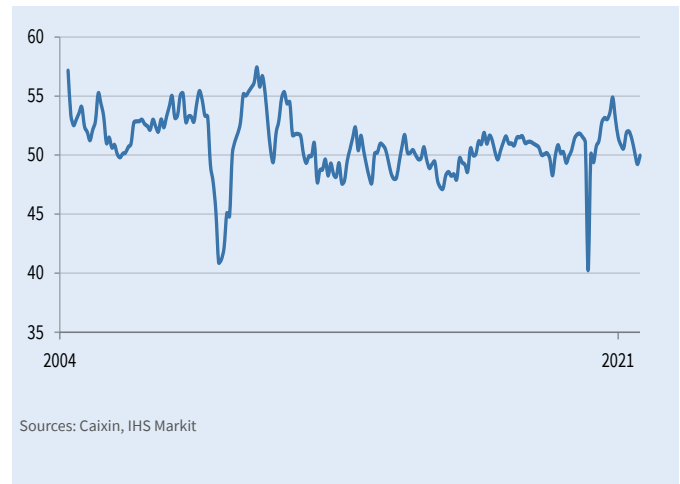
In line with the trend for new work, buying activity returned to growth in September. Meanwhile, firms maintained a relatively cautious approach to their inventories of inputs, which declined marginally. In contrast, stocks of finished goods rose slightly, which was partly driven by difficulties shipping items to clients due to pandemic-related disruption.

Inflationary pressures picked up in September, with average input costs rising sharply overall. Moreover, the rate of inflation was the quickest seen for four months, amid reports of greater energy and raw material costs. This in turn led to a solid increase in prices charged.

Companies generally anticipate output to increase over the next year, with the level of positive sentiment improving to its highest since June. Optimism was underpinned by forecasts of an end to the pandemic, planned company expansions, rising customer demand and new product launches.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

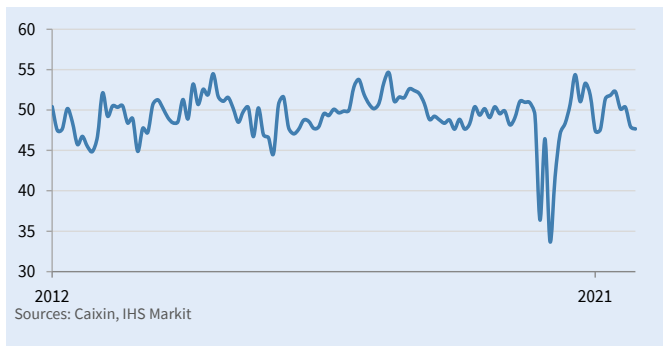
New orders return to growth

Output falls at softer pace

Inflationary pressures pick up amid material shortages

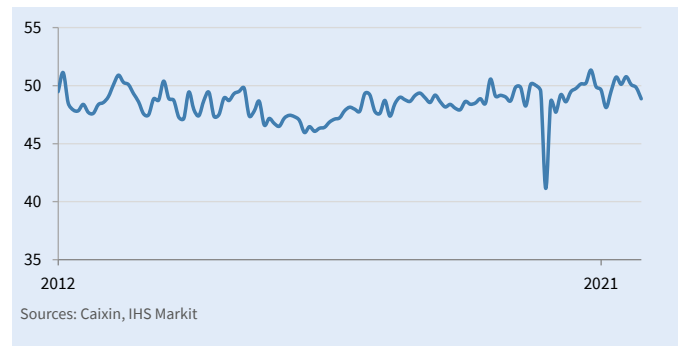
New Export Orders Index

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 50 in September, showing that conditions in the manufacturing sector remained unchanged from the previous month. Factors including the reappearance of Covid-19 in several regions and raw material shortages continued to hurt the economy.

“Supply in the manufacturing sector continued to shrink, while demand improved. The resurgence of the epidemic in several regions and shortfalls in raw material supplies slowed production at manufacturing companies, with the gauge for output contracting for the second straight month in September. Demand improved, though marginally, with demand for consumer goods in the doldrums. Overseas demand was relatively weak as new export orders largely decreased in September. The epidemic again emerged overseas. Global shipping capacity was also clearly insufficient.

“The job market continued to come under pressure. The gauge for employment contracted for the second month in a row in September, and at a faster clip. Manufacturing enterprises reported that they were cautious about hiring new workers.

“Inflationary pressure surged. The gauge for input prices hit its highest level in four months in September, its 16th straight month in expansionary territory. The measure for output prices also reached its highest in three months. Surveyed enterprises said the rise in costs was mainly caused by a sharp increase in the prices of energy, industrial metals and electronic raw materials. The pressure of rising costs was partly transmitted downstream to consumers, as the demand was not weak.

“In logistics, delivery times grew longer. The gauge of suppliers’ delivery times remained in negative territory due to the lingering effects of some

regions’ measures to contain local outbreaks of Covid-19. Consequently, inventories of finished manufacturing goods grew slightly.

“Entrepreneurs remained optimistic about the business outlook. The gauge for future output expectations bounced back to the long-term average. Manufacturing enterprises remained positive about the prospects for the market and for getting the Covid-19 outbreak under control.

“Overall, conditions in the manufacturing sector picked up in September from the previous month, though the improvement was limited. The Caixin China manufacturing PMI came in at 50, indicating the downward pressure on the economy was still high. On the one hand, the epidemic continued to impact demand, supply, and circulation in the manufacturing sector. The state of the epidemic overseas and the shortage of shipping capacity also dragged down total demand. Epidemic control measures have clearly impacted the logistics industry.

“Domestic demand varied based on different types of goods. The demand for intermediate goods and investment goods was relatively high, while the demand for consumer goods was weak, reflecting consumers’ lack of purchasing power. On the other hand, constraints to the supply side were strong as raw material prices remained high and some policy measures restricted production, squeezing employment and eventually weakening demand.

“In view of this, in the coming months, the government should focus on improving epidemic prevention and control and alleviating supply-side pressure. It should also find a balance among multiple objectives, such as promoting employment, maintaining the stability of raw material prices, ensuring a stable and orderly supply, and meeting targets for controlling energy consumption.”



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 13-22 September 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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