

PMI

Caixin China
General Manufacturing
PMI Press Release

2021.11



Caixin China General Manufacturing PMI™

Output expands slightly in November, but demand conditions soften

Latest PMI data indicated that overall business conditions faced by Chinese manufacturers were broadly unchanged in November. Output rose for the first time in four months as disruption to production schedules from power supply issues eased, but total new business fell slightly. As a result, capacity pressures subsided, with backlogs rising only slightly, while softer demand conditions also contributed to a further drop in staff numbers. Prices data meanwhile showed notable slowdowns in the rates of both input cost and output charge inflation.

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 – dipped from 50.6 in October to just below the neutral 50.0 mark at 49.9 in November. This indicated that operating conditions were broadly unchanged on the month after a slight improvement in October.

Three of the five PMI components weighed on the headline index in November, namely new orders, employment and suppliers' delivery times (inverted for the calculation). Output and stocks of purchases indices meanwhile had positive directional influences on the PMI figure.

Chinese manufacturing output rose for the first time since July during November, though the rate of expansion was only fractional. Panel members indicated that firmer market conditions and a relative improvement in energy supply had supported higher production. That said, subdued customer demand, rising costs and limited power supply at some firms dampened overall growth.

Total new work fell marginally in November, following two months of expansion. Some firms linked relatively muted demand conditions to the pandemic and high output prices. New work from abroad also fell, albeit at the softest rate for four months, amid reports of reduced foreign demand due to the ongoing pandemic and challenges in shipping items to clients.

Softer demand conditions and improved production led to a slower rise in backlogs of work midway through the fourth quarter. Unfinished business rose at the slowest rate for nine months and only slightly. At the same time, manufacturers cut their staff numbers for the fourth time in as many months. That said, the rate of job shedding remained marginal.

Reduced sales also contributed to a further drop in buying activity, which declined modestly overall. Inventories of both pre- and post-production items meanwhile rose only slightly.

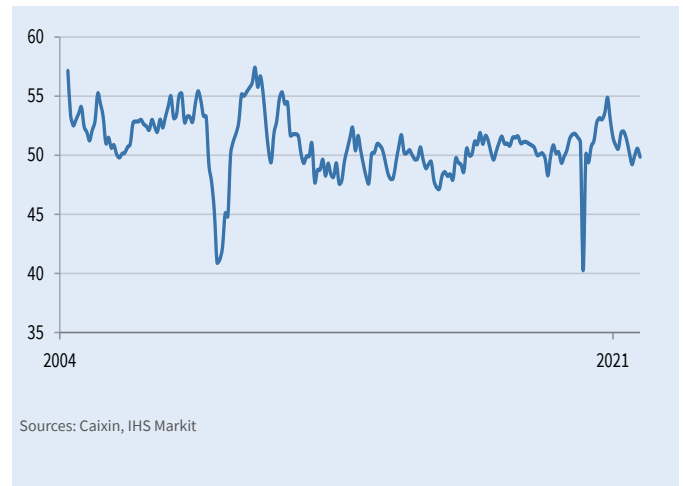
Although supplier performance deteriorated again in November amid reports of low stock levels at vendors and logistical delays, the degree to which times lengthened was only mild. Notably, the incidence of delays was the lowest since March.

After rising rapidly in October, manufacturing input costs rose only modestly in November. Moreover, the rate of inflation was the slowest seen since October 2020. While many firms commented on higher raw material and transportation costs, others indicated that some materials had fallen in price. Subsequently, the rate of output charge inflation also slowed considerably on the month.

Looking ahead, goods producers were generally confident that output will rise over the next year, with the degree of positive sentiment picking up from October.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Caixin, IHS Markit

Key findings:

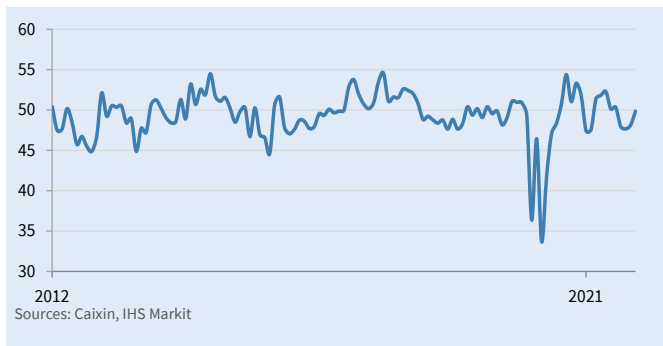
Output rises for first time in four months as power supply issues unwind...

...but total new orders fall slightly

Inflationary pressures ease markedly

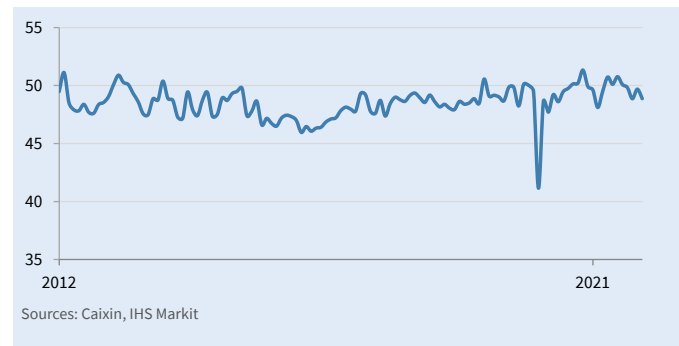
New Export Orders Index

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 49.9 in November, down from 50.6 the previous month. The index plunged into contractionary territory for the second time since April 2020.

“Supply in the manufacturing sector recovered, while demand weakened. Relaxing constraints on the supply side, especially the easing of the power crunch, quickened the pace of production recovery. In November, the measure for output returned to positive territory after remaining in negative territory for three consecutive months. But demand was relatively weak, suppressed by the Covid-19 epidemic and rising product prices. The pandemic hurt external demand, with the gauge for new export orders staying in negative territory for the fourth straight month in November.

“The job market continued to contract. Weak market demand and cost pressures restricted manufacturing enterprises’ recruitment. The measure for employment remained in negative territory for the fourth month in a row in November, with the pace of contraction even steeper than the previous month. Consumer goods manufacturers showed a particularly obvious reduction in hiring.

“Inflationary pressure was partly eased. Under the impact of regulations to contain surging commodity prices, manufacturing enterprises’ input costs in November increased at a slower pace than the previous month. Surveyed enterprises said the prices of steel fell at a steep pace. But the prices of chemicals and electronics remained high, as did freight rates. Thanks to the drop in the measure for input costs, the gauge of output prices fell in November, though both remained in positive territory. Still, the gauges of input costs and output prices have remained in expansionary territory for 18 months and 19 months, respectively, indicating that inflationary pressure should not be underestimated.

“Manufacturing enterprises’ inventories expanded. Production by manufacturing enterprises recovered, but due to the gap between supply and demand, the inventories grew. Both the gauges of stocks of purchases and stocks of finished goods returned to positive territory in November. Logistics improved in November compared to the previous month, but suppliers’ delivery times were still extended.

“Entrepreneurs remained optimistic about the outlook for market demand. The improvement of the epidemic situation, the increase in demand and the recovery of supply chains are all positive factors.

“To sum up, the manufacturing sector remained stable overall in November. Increased downward pressure and easing inflationary pressure were prominent features of the economic situation. From late October to mid-November, there were sporadic new Covid outbreaks in several Chinese regions, which had a negative impact on the economy and particularly suppressed the demand side. After the shortage of power was alleviated, the supply side began to recover. But due to weak demand, the supply recovery was limited, and the foundation of the recovery was not solid. The government’s measures to stabilize commodity supplies and prices began to bear fruit, which significantly eased cost pressures on manufacturing enterprises. But the gauges of input costs and output prices remained in expansionary territory, showing inflationary pressure still remained.

“Policymakers should still focus on supporting small and midsize enterprises. They should also pay attention to problems including deteriorating employment, limited growth of household income and weak purchasing power for consumer goods. In addition, the prices of some raw materials remained high. Enterprises are still facing high cost pressures. Policymakers should treat inflation seriously.”



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 12-22 November 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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