

PMI

Caixin China
General Manufacturing
PMI Press Release

2020.9

Caixin China General Manufacturing PMI™

Operating conditions continue to improve solidly in September

China's manufacturing economy retained strong growth momentum in September, with firms signalling further marked increases in production and new work. Notably, new business expanded at the strongest rate since January 2011, aided by a solid rebound in export sales. Increased activity at home and abroad was reportedly driven by the easing of lockdown measures as the sector continued to recover from the coronavirus disease 2019 (COVID-19) pandemic. Furthermore, employment stabilised in September, which ended an eight-month period of job shedding. However, operating margins remained under pressure, as firms reported a further marked increase in input costs but raised their selling prices only slightly.

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 – edged down from 53.1 in August to 53.0 in September, to signal a further solid improvement in the health of the sector. Operating conditions have now strengthened in each of the past five months. Notably, the latest reading rounded off the best quarterly performance since Q4 2010.

Chinese manufacturers recorded a sharp and accelerated increase in total new work during September, with a number of firms commenting that a further recovery in client demand had boosted sales. Furthermore, the rate of new order growth was the steepest recorded since the start of 2011. Stronger external demand also helped to lift sales, with new export business expanding at the quickest pace since August 2017.

Manufacturers registered a softer, but still marked, rise in production during September. Companies continued to report that higher inflows of new work led them to raise output.

Greater amounts of new business added further pressure on operating capacities, as highlighted by a sustained increase in backlogs of work. At the same time, employment levels were broadly stable, which brought about an end to a period of job shedding that stretched back to January.

In line with the positive trends seen for new orders and output, manufacturers raised their purchasing activity again in September, and at the fastest rate since January 2011. Consequently, inventories of inputs rose for the fourth month in a row. While stocks of finished goods also increased at the end of the third quarter, the rate of accumulation was only marginal.

A lack of stocks at distributors, meanwhile, led to a further increase in average lead times for inputs in September. The rate at which vendor performance deteriorated remained much less severe than that seen at the height of the pandemic, however.

Operating expenses faced by Chinese manufacturers rose again in September amid reports of higher prices for raw materials. Furthermore, the rate of cost inflation quickened from August and was solid. However, average output charges increased at the slowest rate for three months, rising only slightly overall. A number of panellists indicated that greater market competition had restricted their ability to raise their prices.

Chinese manufacturers were generally confident that production would rise over the next 12 months. Notably, the degree of positive sentiment improved to a three-month high. Growth forecasts were underpinned by hopes that client demand and global economic conditions will strengthen once the pandemic is over.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

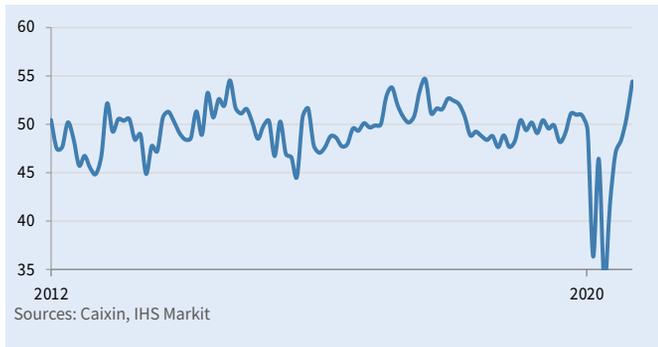
Output growth eases but remains marked

Sharper increase in total new work as export sales rebound

Staffing levels stabilise, ending eight-month period of decline

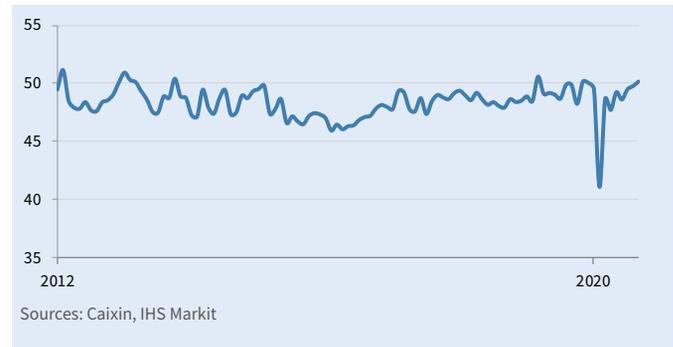
New Export Orders Index

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 53 in September, dipping from 53.1 the previous month. Before August, the last time the index climbed above 53 was January 2011. That indicates the post-coronavirus manufacturing recovery has stayed strong, managing to even accelerate over the past two months.

1. The recovery in manufacturing has maintained its momentum in the wake of the Covid-19 epidemic, with both the supply and demand surging. The subindex of total new orders rose to the highest since January 2011, helped by sharply rebounding overseas demand. The gauge for new export orders climbed to the highest in three years. The strong demand facilitated a recovery in production, with the output subindex staying high. It has been in expansionary territory for seven months in a row. Surveyed enterprises said that the fallout from the epidemic was gradually fading, and orders were rapidly increasing.

"Inventories have also kept rising. Enterprises chose to increase purchases and inventories as orders rose rapidly. In September, the measure for quantity of purchases rose way up in expansionary territory, coming in at the highest since January 2011. The measure for stocks of purchases expanded for four straight months and growth accelerated from the previous month. The gauge for stocks of finished goods stayed in expansionary territory for the second consecutive month. Sub-sector data showed that inventories of finished items rose at consumer and intermediate goods makers, but fell across the investment goods segment.

2. The employment subindex in September climbed into expansionary territory for the first time this year, ending an eight-month period of contraction. But it came in just a hair above 50

— the threshold for expansion — indicating that the job market remained generally weak. In the survey, some companies said they had begun increasing staff to meet rising demand, but a large number of companies remained cautious about adding new employees.

3. Output prices were weaker than input prices. In September, the measures for input and output prices showed they were both expanding, but one accelerated while the other slowed. The gauge for input prices jumped, with investment goods producers seeing the steepest rate of inflation. But the gauge for output prices slipped to a level just above 50 amid fierce market competition. Enterprises' profit margins were under pressure given the respective rise and fall of the two gauges.

"To sum up, the economic recovery has picked up its pace after the epidemic, with both the supply and demand improving. The sharp rise in overseas demand has complemented the domestic market. Manufacturers remained confident about the economy for the next 12 months and they were no longer reluctant to add to their inventories. The strength of the manufacturing sector will take some of the pressure off policymakers going forward. However, the job market remains worrisome, as the improvement in employment relies on a longer-term economic recovery and a more stable external environment. In the near future, great uncertainties remain about the overseas pandemic and the U.S. presidential election."



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 11-21 September 2020.

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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