

Caixin China General Manufacturing PMI™

Manufacturing sector operating conditions stabilise in March

Key findings

Firms register renewed increase in output...

...but new business falls for second straight month

COVID-19 outbreak continues to weigh on supply chains and capacity

After deteriorating at the quickest pace on record in February, business conditions faced by Chinese manufacturers were broadly stable in March. Production rose slightly as more firms reopened following widespread company shutdowns and travel restrictions in February amid the Coronavirus diseases 2019 (COVID-19) outbreak. However, the pandemic continued to weigh on demand conditions and supply chains, with total new work falling for the second month running and delivery times lengthening sharply.

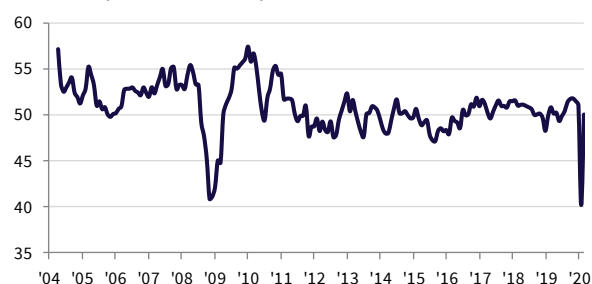
Firms remained upbeat that production would increase over the next year, however, as a number of manufacturers expect demand to recover once the COVID-19 outbreak subsides.

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 a record low of 40.3 in February to 50.1 in March, to signal a broad stabilisation of business conditions. This marked a strong improvement from the previous month when the nation imposed strict measures to stem the spread of COVID-19.

After widespread company closures and travel restrictions led to a record drop in production in February, an easing of some measures led to a tentative rise in output at the end of the first quarter. However, demand conditions remained fragile, as highlighted by a second monthly fall in total new business. A number of panel members mentioned that firms had delayed or cancelled orders due to the ongoing COVID-19 pandemic. Furthermore, new export work declined solidly during March as nations around the world grapple with containing the spread of the virus.

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sa, >50 = improvement since previous month



Sources: Caixin, IHS Markit.

Employment data meanwhile signalled a further reduction in headcounts, though the rate of decline eased since February. Panel members linked the fall to a combination of voluntary leavers and efforts to cut costs. At the same time, capacity pressures persisted due to reduced production over recent months. The rate of backlog accumulation was sharp, despite softening from the previous month.

In line with the trend for output, purchasing activity rose slightly at the end of the first quarter. However, reports of material shortages and greater reliance on current inventories led to a solid reduction in inventories of inputs. Stocks of finished goods meanwhile rose, albeit marginally, which was partly linked to difficulties in shipping items due to restrictions related to COVID-19.

Supply chains remained under pressure in March. Average lead times for inputs increased at the second-quickest rate in just over 12 years amid reports of reduced vendor capacity and material shortages.

Average input costs fell for the first time since August last year, though only slightly. A number of firms linked the fall to weaker global demand conditions. Companies generally passed on lower cost burdens to clients by cutting their selling prices, in hopes of boosting sales.

Business confidence regarding the one-year outlook for output held close to February's five-year high, with many firms optimistic that demand will pick up once the pandemic situation improves.

Comment

Commenting on the China General Manufacturing PMI data, Dr. Zhengsheng Zhong, Chairman and Chief Economist at CEBM Group said:

“The Caixin China General Manufacturing PMI rebounded to 50.1 in March from a record low the previous month, indicating limited improvement in manufacturing activity after widespread economic stagnation in February. The data in the survey, which was conducted from March 12 to March 23, reflected that manufacturers were still gradually getting back to work. The March expansion in the manufacturing sector returned to a level seen before the coronavirus epidemic.”

1) *Manufacturing output expanded, but orders declined. Since Feb. 21, the epidemic has worsened outside China, with the number of overseas infections amounting to 394,000 as of Wednesday. The U.S., Europe and Iran are among the worst-hit regions. On the contrary, the epidemic has been basically contained in China. The worsening situation overseas is another blow to manufacturing demand. The subindex for total new orders stayed in contractionary territory for the second straight month in March, while the gauge for new export orders was still way below levels seen before the epidemic.*

2) *Stocks of purchased items shrank in March, inventories of finished goods expanded, and backlogs of work continued to grow, reflecting insufficient business resumption. Constrained by the downturn in new orders and restrictions on logistics and the movement of people, manufacturers did not increase raw material inventories. The subindex for stocks of purchased items rebounded slightly from the previous month’s record low, remaining in negative territory and at a relatively low level in recent years. The measure for stocks of finished goods returned to positive territory due chiefly to disrupted transportation. The gauge for backlogs of work was still at a relatively high level despite dropping slightly.*

3) *Prices of industrial products continued to fall. The gauge for input costs was still higher than that for output prices, although both were in contractionary territory. As consumption and other types of demand did not fully recover, downstream manufacturers were under greater pressure than their upstream counterparts to cut prices. Declines in raw material prices were largely transmitted to the prices of finished goods.*

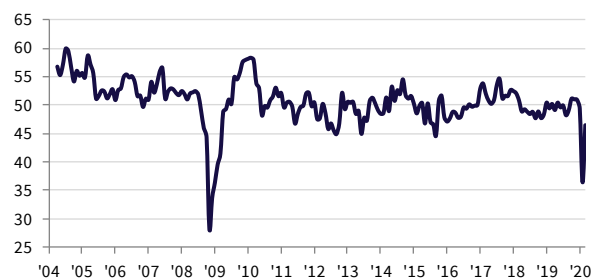
4) *Manufacturers were still quite confident about the next 12 months, although the gauge for future output expectations fell slightly from the previous month. Employment was also relatively stable. The employment subindex returned to the normal level before the epidemic outbreak, despite staying in negative territory. The good news was that fundamental economic factors, such as business confidence and resident income, did not deteriorate substantially.*

Continued...

“To sum up, the manufacturing sector was under double pressure in March: business resumption was insufficient; and worsening external demand and soft domestic consumer demand restricted production from expanding further. Whereas, business confidence was still high and the job market basically returned to the pre-epidemic level, laying a positive foundation for the economy’s rapid recovery after the epidemic.”

New Export Orders Index

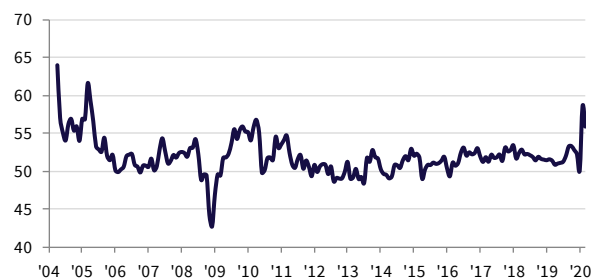
sa, >50 = growth since previous month



Sources: Caixin, IHS Markit.

Backlogs of Work Index

sa, >50 = growth since previous month



Sources: Caixin, IHS Markit.

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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

March data were collected 12-23 March 2020.

Data collection began in April 2004.

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.

For more information, please visit www.caixin.com and www.caixinglobal.com.

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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. To learn more go to www.ihsmarkit.com/products/pmi.html.

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