Caixin China General Manufacturing PMI™

Manufacturers signal further modest improvement in operating conditions

Summary

PMI data signalled a further modest improvement in the health of China's manufacturing sector during November. New business rose strongly, which underpinned a further solid increase in production. Notably, new export orders saw the first back-to-back monthly rise for over a year-and-a-half. Staffing levels were broadly stable following a seven-month sequence of decline, but capacity pressures persisted, with backlogs of work expanding again. Average input costs meanwhile rose marginally, while factory gate charges fell slightly amid reports of a general drop in market prices.

Despite further increases in output and new orders, the level of positive sentiment towards the 12-month outlook for production slipped to a five-month low in November. Stricter environmental policies and market uncertainty were key factors weighing on confidence.

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 up from 51.7 in October to 51.8 in November, to signal an improvement in overall operating conditions for the fourth successive month. Though modest, the pace of improvement was the strongest since December 2016.

The latest upturn in the health of the sector was partly supported by a further rise in new business placed with Chinese manufacturers. Despite easing from October, the rate of new order growth remained solid overall, with a number of firms citing firmer underlying demand conditions. Demand from overseas also improved, with export sales picking up for the second month in a row. Though only marginal, it marked the first back-to-back increase in new orders from abroad since early 2018.

In response to rising new workloads, manufacturers increased output again in November. The rate of expansion was little-changed from that seen in October and solid.

After falling for seven months in a row, employment at Chinese manufacturing companies was broadly stable midway through the final quarter. Nonetheless, capacity pressures persisted, as highlighted by another rise in backlogs of work.

To accommodate higher production, firms increased their buying activity, and at the strongest pace since January 2018. This placed further pressure on supply chains, with firms registering a deterioration in vendor performance again in November.

Higher buying activity contributed to an increase in stocks of purchases, albeit only marginal. Meanwhile, inventories of finished goods fell slightly.

Prices data showed that overall inflationary pressures remained weak, with average cost burdens rising only slightly while output charges fell again.

Chinese goods producers generally expect output to rise over the next year, though confidence slipped to a five-month low amid concerns of an uncertain outlook and the implementation of stricter environmental policies.

Key Points

- Solid increases in output and new business
- Employment broadly stable
- Inflationary pressures remain weak

Comment

Commenting on the China General Manufacturing PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

"The Caixin China General Manufacturing PMI rose to 51.8 in November from 51.7 in the previous month, indicating that the manufacturing sector held up well.

1) The subindex for total new orders dropped slightly from the previous month's recent high, and the gauge for new export orders also edged down. Both stayed in expansionary territory, pointing to a continuous improvement in demand. Respondents cited a recovery in overall demand.

2) The output subindex fell marginally from a recent high in the month before. Production expanded in line with the expansion in new orders.

3) The employment subindex rebounded from the previous month's recent low into positive territory, marking its second expansion this year.

4) Although the subindex for suppliers' delivery times edged up, it remained in contractionary territory and stayed in a downward trend that began earlier this year. Constraints on production capacity and stocks of finished goods were still noticeable. The subindex for stocks of purchased items remained slightly above the dividing line between expansion and contraction, suggesting a lackluster willingness to replenish inventories. The gauge for future output expectations dipped, with manufacturers indicating they were worried about uncertainties regarding policies and the market environment.

5) The gauge for output charges inched up. The measure for input costs was still relatively high, pointing to pressure on raw material costs. In general, prices of industrial products remained stable.

"China's manufacturing sector continued to recover in November, with both domestic and overseas demand rising and the employment subindex returning to expansionary territory for the second time this year.

Continued…

“However, business confidence remained subdued, as concerns about policies and market conditions persisted, and their willingness to replenish stocks remained limited. This is a major constraint on economic recovery, which requires continuous policy support. Currently, manufacturing investment may be lingering near a recent bottom. A low inventory level has lasted for a long time. If trade negotiations between China and the U.S. can progress in the next phase and business confidence can be repaired effectively, manufacturing production and investment is likely to see a solid improvement.”

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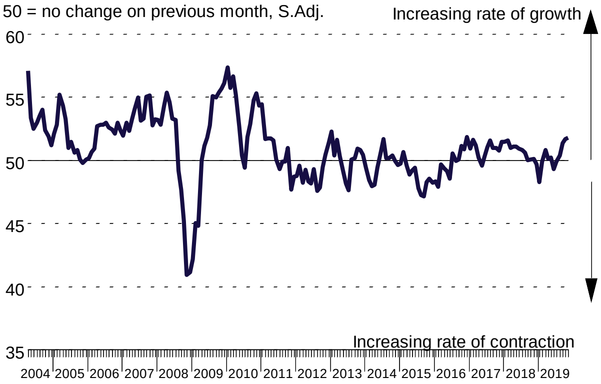

Sources: IHS Markit, Caixin.

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Notes to Editors:

The Caixin China Report on General Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 manufacturing companies. The panel is stratified by company size and Standard Industrial Classification (SIC) group, based on industry contribution to Chinese GDP. For the purposes of this report, China is defined as mainland China, excluding Hong Kong SAR, Macao SAR and Taiwan.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the ‘Report’ shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the ‘diffusion’ index. This index is the sum of the positive responses plus a half of those responding ‘the same’.

The *Purchasing Managers’ Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights applied: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers’ Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Historical data relating to the underlying (unadjusted) numbers and seasonally adjusted series are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

About Caixin:

Caixin Media is China's leading media group dedicated to providing financial and business news through periodicals, online content, mobile applications, conferences, books and TV/video programs.

Caixin Insight Group is a high-end financial data and analysis platform. The group encompasses the monthly Caixin China Purchasing Managers' Index™, components of which include the Caixin China General Manufacturing PMI™ and Caixin China General Services PMI™. These indexes are closely watched worldwide as reliable snapshots of China's economic health.

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 https://ihsmarkit.com/products/pmi.html

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