

Caixin China General Manufacturing PMI™

Production declines at record pace as factories shutdown due to coronavirus

Key findings

Record falls in output, new orders and employment

Travel restrictions lead to sharp deterioration in supply chains

Business confidence rises on hopes of output recovering

Efforts to contain the recent outbreak of the coronavirus in mainland China weighed heavily on manufacturing sector performance in February. Production, new work and staffing levels all fell at the quickest rates since the survey began nearly 16 years ago as companies extended their usual Lunar New Year shutdowns to help stem the spread of the virus. Supply chains were also hit heavily, with average delivery times increasing at the quickest pace on record, leading firms to increase their use of current stocks.

However, firms anticipate a recovery in production over the next year due to expectations that production will be ramped up once any coronavirus-related restrictions are lifted. Notably, the degree of positive sentiment was the strongest seen for five years.

At 40.3 in February, 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 – fell from 51.1 at the start of the year to signal a renewed decline in the health of the sector. Furthermore, it was the lowest PMI reading since the survey began in April 2004.

Production fell sharply during February as many firms shutdown or were operating below capacity due to restrictions put in place in response to the coronavirus outbreak. The rate of contraction was the quickest on record, and ended a six-month period of rising output.

The total amount of new work received by Chinese manufacturers also declined at the steepest rate since the survey began in early 2004. The drop in sales was the first

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sa, >50 = improvement since previous month



Sources: Caixin, IHS Markit.

seen since June 2019, with companies widely linking the fall to the coronavirus and subsequent factory closures. Meanwhile, the level of new export work fell at one of the fastest rates in the series history, which was in turn attributed to shipping restrictions and order cancellations.

Lower production requirements drove the steepest decline in buying activity since the survey began nearly 16 years ago. At the same time, firms struggled to get hold of inputs, as travel restrictions and company shutdowns led to the quickest deterioration in vendor performance on record.

Difficulties in sourcing inputs contributed to the steepest decline in inventories of purchased items for just over 11 years. Concurrently, stocks of finished goods fell for the second month in a row, albeit only slightly.

Travel restrictions also impacted the supply of labour, with firms struggling to fill roles in February. Notably, employment across the manufacturing sector fell at the quickest rate in the series history. As a result, firms registered greater pressure on capacity, with backlogs rising sharply.

Cost pressures were meanwhile subdued, with average input prices rising only modestly in February. However, factory gate prices fell for the first time in three months due to efforts to boost sales.

Encouragingly, manufacturers were confident that output would rise over the next year, with the degree of optimism reaching a five-year high. Firms widely expect production to rebound once restrictions related to the virus are lifted.

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 slid to 40.3 in February, weaker than 40.9 in November 2008 amid the global financial crisis. This month’s gauge hit the lowest level since the survey launched in early 2004. The sharp decline was due to stagnant economic activity across the country disrupted by the pneumonia epidemic caused by a novel coronavirus.

“The supply and demand sides of the manufacturing sector were both weak.

1) Both the subindexes for output and total new orders plummeted into contractionary territory and hit their lowest levels on record. Supply chains came to a standstill as businesses extended the Lunar New Year holiday and multiple local governments implemented restrictions on transportation and the movement of people in efforts to control the epidemic. The gauge for new export orders remained in negative territory and slumped to the lowest point since January 2009.

2) There was a large backlog of previously accumulated orders due to stagnant supply chains. While both the subindexes for employment and suppliers’ delivery times remained in negative territory and dropped to record lows, the gauge for backlogs of work remained in positive territory, to highlight the strongest rise since April 2005. Manufacturers were faced with great pressure to deliver orders with insufficient operational capacity amid the impact of the epidemic. While the gauge for stocks of purchased items fell to its lowest point since January 2009, the one for inventories of finished goods rebounded slightly, indicating that both the supply and demand sides were stagnant. Both gauges remained in contractionary territory.

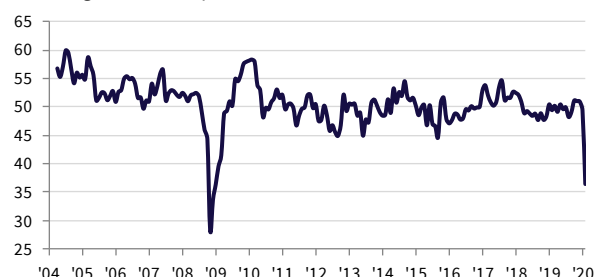
3) Industrial product prices dropped slightly. While the measure for output prices fell into negative territory, the one for input costs remained in positive territory despite a small drop. Companies have been under pressure to cut prices in the face of declining demand. Pressure on costs of raw materials remained large, but it was no longer a major problem.

4) That said, business confidence continued to improve, with the gauge for future output expectations hitting a five-year high. This was due chiefly to more-proactive macroeconomic policies and policymakers’ support for small and midsized enterprises.

“China’s manufacturing economy was impacted by the epidemic last month. The supply and demand sides both weakened, supply chains became stagnant, and there was a big backlog of previous orders. However, manufacturers were more confident. The economy will be able to see a significant rebound when the epidemic is gradually contained and companies accelerate the resumption of business amid more-proactive fiscal and monetary policies.”

New Export Orders Index

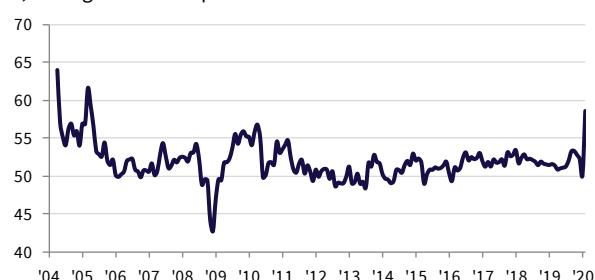
sa, >50 = growth since previous month



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

February data were collected 12-21 February 2020. The response rate for February was not affected by the widespread factory shutdowns in place due to the Covid-19 outbreak and remained in excess of 70%.

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.

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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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