Chinese manufacturers noted an improvement in demand during October, but power shortages and rising costs weighed on production, according to latest PMI data. Limited power supply and material shortages also dampened supplier performance, with lead times increasing at the fastest rate since March 2020. As a result, inflationary pressures intensified, with average input prices rising at the sharpest rate since December 2016, while the pace of output charge inflation also accelerated notably since September.

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 – picked up from 50.0 in September to 50.6 in October, to signal a renewed improvement in the health of China’s manufacturing sector. Although only slight, the rate of expansion was the strongest recorded since June.

Stronger demand conditions helped to lift the headline PMI, with total new orders rising to the greatest extent in four months. Panel members often mentioned that client demand had improved over the month. However, underlying data indicated that the upturn was largely driven by stronger domestic demand, as foreign orders fell for the third month in a row. Some manufacturers mentioned that difficulties securing sales and shipping products to overseas clients had weighed on export business.

Despite rising amounts of overall new work, manufacturers recorded a third successive monthly decline in production, albeit one that was only mild. Panel members often indicated that limited power supply, material shortages and rising costs had constrained output at the start of the fourth quarter.

Lower production contributed to a further drop in manufacturing sector employment in October. That said, the rate of job shedding eased to a marginal pace. At the same time, backlogs of work expanded for the eighth month in a row, though the rate of accumulation was modest overall.

In line with the trend for output, buying activity fell in October. Anecdotal evidence indicated that reduced production and high purchasing costs had led firms to cut back on input buying. As a result, companies depleted their inventories of inputs for the fourth month in a row, and at the fastest rate since March 2020. Meanwhile, stocks of finished goods fell for the first time in three months.

Supply chain delays became more widespread in October, with average lead times for inputs increasing at the fastest rate since March 2020. There were reports that a lack of stock at vendors and reduced power supply drove the latest deterioration in supplier performance.

Higher costs for materials, energy and transport drove a sharper rise in average input prices in October. The rate of inflation was the steepest seen since December 2016 and rapid overall. Consequently, output charges also rose at a notably quicker rate during October.

Chinese manufacturers were generally optimistic that output will rise over the next 12 months, though the degree of positive sentiment eased slightly since September. Some firms expressed concerns over ongoing supply chain disruptions and rising costs.
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 50.6 in October, up from 50 the previous month and returning to expansionary territory. In the past 18 months, the index only dropped below 50 once, in August.

"The manufacturing sector featured a combination of strong demand and weak supply last month. Output shrank for the third consecutive month, and at a faster clip than the previous month. Power cuts and rationing, raw material shortages and commodity price hikes were the reasons behind the supply contraction. Demand continued to recover with the subindex for total new orders rising further into expansionary territory. Overseas demand remained sluggish as new export orders dropped for the third straight month.

"The job market remained stable, though it shrank slightly due to weak supply. The gauge for employment had stayed in contractionary territory for three consecutive months.

"Inflationary pressure remained high. Input costs rose for the 17th month in a row, with the growth rate accelerating to the highest since December 2016. Raw material and energy prices rose sharply, pushing up manufacturers’ costs. Transportation costs also increased. The measure for output prices jumped to the highest in five months as enterprises raised prices to pass their higher costs downstream. Increases in prices charged by producers of intermediate products were particularly substantial.

"Suppliers’ delivery times rose sharply as the power crunch and raw material shortages disrupted logistics. The gauge for delivery times hit the lowest point since March 2020. Manufacturers cut purchases due to multiple factors including weak supply, the power crunch and raw material shortages. Last month, the gauges for quantity of purchases and stocks of purchases declined to the lowest since February 2020 and March 2020, respectively.

"Surveyed manufacturers remained optimistic about the outlook for business and market demand, but some expressed worries about the nominalization of supply chains.

"To sum up, manufacturing recovered slightly in October from the previous month. But downward pressure on economic growth continued. We noticed that the pandemic’s impact on manufacturing faded from late September to mid-October as the number of new Covid-19 cases dropped, which boosted demand. However, supply strains became the paramount factor affecting the economy. Shortages of raw materials and soaring commodity prices, combined with electricity supply problems, created strong constraints for manufacturers and disrupted supply chains. Input costs for manufacturers have risen much faster than output prices for several months, putting a lot of pressure on downstream enterprises.

"Policymakers should not only take effective measures to stabilize commodity supplies and prices, but also pay close attention to downstream firms, especially small and midsize ones. In addition, a new wave of Covid-19 outbreaks has reappeared in many central and western regions since late October, which means re-emerging economic disruptions. It is critical to balance the goals of controlling the outbreaks and maintaining normal economic activity."

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**New Export Orders Index**

sa, >50 = growth since previous month

**Employment Index**

sa, >50 = growth since previous month
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 12-21 October 2021.
Data were first collected 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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