

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

COVID-19 containment continues to restrict manufacturing output and demand

Chinese manufacturing business conditions deteriorated in October as COVID-19 containment measures weighed on both output and demand. That said, the decline was only marginal overall and weaker than in September.

Although levels of both production and new business fell during October, rates of decline eased. The latest survey data highlighted companies' continued efforts to stimulate sales as output charges were reduced for a sixth month in a row. This came despite a renewed increase in operating costs, with panel comments suggesting this was primarily due to higher international prices for raw materials. Meanwhile, business confidence edged slightly higher during October.

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 – posted below the 50.0 no-change mark in October to signal a third successive deterioration in manufacturing sector conditions across China. However at 49.2, this was up from 48.1 in September and indicative of only a marginal decline.

Further declines in both output and new orders were seen at the start of the fourth quarter, with COVID-19 a principal factor behind lower client demand and disrupted factory operations. Nevertheless, decreases were only mild and slowed in both cases. All three monitored sub-sectors registered lower production and new orders in October. Intermediate goods makers registered the weakest reductions.

October survey data signalled another drop in new business from external markets. Slowing economic conditions abroad was noted as a factor, although some companies also experienced challenges in transporting goods overseas. Indeed, supplier delivery times lengthened again at the start of the fourth quarter. Limited vendor production capacity and shortages were linked to delivery delays.

Chinese manufacturers raised their purchasing activity in October, marking the first such increase since July. Where higher input buying was registered, this was linked to stock-building efforts. Similarly, pre-production inventories rose for the first time in three months during the latest survey period. Some companies reportedly secured inputs ahead of new product launches.

Elsewhere, there were continued signs of spare capacity at Chinese manufacturers as backlogs of work fell for the fourth time in five months. Some companies cited a build-up of incomplete orders due to COVID-19 disruption, although this was more than offset by the other businesses that were able to clear pending work on their order books.

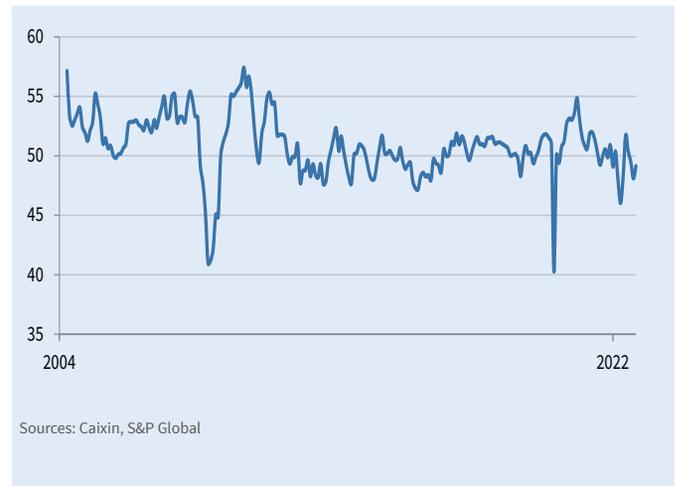
Efficiency gains also led some Chinese factories to reduce their workforce numbers in October. Survey respondents reportedly lowered their headcounts due to the automation of some processes across the production line. Overall manufacturing employment has now fallen for seven months in a row.

Meanwhile, selling prices were reduced for a sixth successive month in October. According to firms, output charges were reduced in a bid to stimulate sales and improve competitiveness. Discounting came despite a renewed uptick in operating costs.

There was an improvement in business optimism during October, which recovered slightly from September's 34-month low. Capacity expansion and new product launches were expected to support growth over the coming year.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

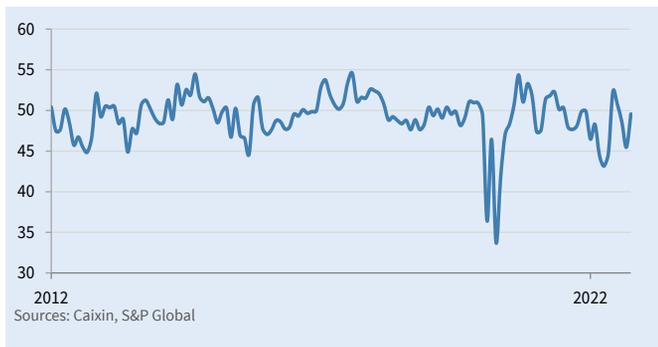
Output and new orders fall again in October as COVID-19 containment measures continue

Selling prices fall for sixth consecutive month

Business confidence edges up slightly from September's recent low

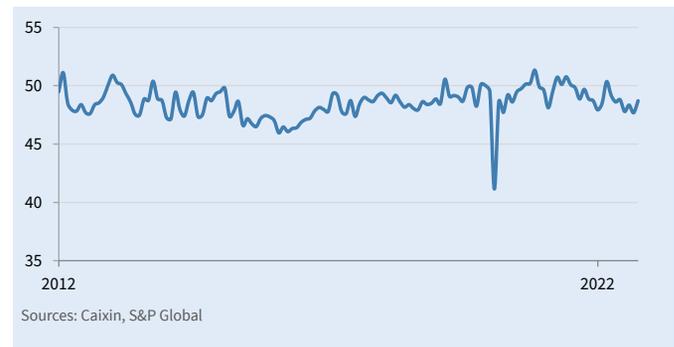
New Export Orders Index

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 in October rose 1.1 points from the previous month to 49.2, but remained in contractionary territory. This marked the third consecutive month of contraction in manufacturing activities, still weighed down by Covid-19 outbreaks and consequent tightening of prevention and containment measures.

"Supply and demand in manufacturing contracted in tandem amid persistent Covid outbreaks. The subindexes for output and total new orders were below 50 for the second and third consecutive months respectively, with consumer and investment goods the weakest in demand. Overseas demand continued to weaken, as the gauge for new export orders remained in contraction for the third consecutive month.

"Employment continued to shrink. For the seventh consecutive month and the 14th time in the past 15 months, the subindex for employment was in contractionary territory, although the rate of decline was softer than in the previous three months. In consideration of reducing scale and costs, companies were less willing to recruit new employees to fill the posts of those who left, and the automation of some production lines also gave employers a reason to limit hiring.

"The readings for output and input prices diverged. Market demand was sluggish, so companies were willing to cut prices to promote sales. As a result, the gauge for surveyed manufacturers' output prices recorded a number below 50 for the sixth consecutive month. In terms of costs, companies were pressured by rising operating costs. In October, the prices of raw materials rose in global markets, and the gauge for purchasing prices rose more than 3 points from the previous month, moving into expansionary territory for the first time in three months.

"Inventory levels saw an increase. In order to meet production needs, especially due to concerns about rising raw material prices and supply shortages caused by Covid outbreaks, manufacturing companies were more incentivised to replenish inventories. In October, measures for quantity of purchases, stocks of raw materials and inventories of finished products were

all above 50. At the same time, Covid controls also affected logistics, resulting in slightly longer deliver times for suppliers.

"Entrepreneurs were more optimistic. In October, the gauge for manufacturers' expectations for future output rebounded from a low in the previous month, but remained below the long-term average. Entrepreneurs hoped that the market would pick up significantly in the future, and some expressed willingness to develop new products.

"Overall, the negative impact of Covid controls on the economy lingered. In October, supply, domestic and overseas demand, and employment in the manufacturing sector all contracted, but the rates of contraction slowed from the previous month. Costs rose slightly, and cuts to output prices were still common. Logistics and transportation were still sluggish, and companies' purchases and inventories rose slightly. Market sentiment improved, but optimism remained limited from a long-term perspective.

"The recently released economic data for the third quarter showed that the economy was recovering, as several main indicators stabilized and were slightly better than market expectations. However, the current domestic and international environments remain complicated and tough, and unfavorable factors affecting economic development have increased. In particular, the spread of the coronavirus in many regions significantly restricts both supply and demand. There is still tremendous downward pressure on the economy, and the foundation for economic recovery is not yet solid.

"President Xi Jinping's report to the Communist Party of China's 20th National Congress emphasized that "development is the party's top priority in governing and rejuvenating China" — it's a message that can help stabilize long-term market expectations. At present, demand and employment are still under pressure, and policies to promote employment and stabilize domestic demand need to be strengthened, which is implied in the report. The report says that the country's top leaders will enhance the coordination between fiscal and monetary policies, and work to expand domestic demand and better leverage the fundamental role of consumption in stimulating economic growth and the key role of investment in improving the supply structure."



Survey methodology

The Caixin China General Manufacturing PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 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 2022.

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>

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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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