

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

Manufacturing conditions deteriorate slightly in November

Ongoing COVID-19 containment measures continued to weigh on the performance of China's manufacturing sector during November. Firms registered a further fall in output, with the rate of contraction picking up slightly from October, amid a sustained reduction in sales. That said, the latest drop in new work was the weakest recorded in four months.

Pandemic restrictions and reduced production requirements also led firms to cut back on purchasing activity and contributed to a further drop in staff numbers. At the same time, there was a notable deterioration in supplier performance, which declined at the fastest rate since May. Looking ahead, optimism around the 12-month outlook for production remained subdued in the context of historical data, but improved to a three-month high. Prices data meanwhile signalled a slight acceleration in the rate of input cost inflation, while output charges fell fractionally.

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 49.2 in October to 49.4 in November, to signal a deterioration in the health of the manufacturing sector for the fourth month in a row. That said, the rate of decline was the slowest seen since August and only slight.

Factory output in China fell for the third month running in November, with the rate of reduction quickening from October, but remaining mild overall. Companies frequently linked the decline to the impact of COVID-19 restrictions on operations and customer demand.

New orders likewise fell further, though the rate of contraction eased to a marginal pace that was the weakest in four months. The pandemic, and subsequent difficulties in transporting goods, also weighed on foreign demand, which fell for the fourth month in a row. There were also reports that softer global economic conditions had dampened export sales. The rate of reduction was only slight, however.

Softer demand conditions and containment measures also weighed on employment in November. Though modest, the rate of job shedding was the quickest seen since the initial wave of the pandemic in February 2020, with some companies highlighting that workers were unable to return to work due to restrictions. Backlogs were stable, however, as muted sales helped to ease capacity pressures.

The latest survey also showed a renewed fall in buying activity, as firms looked to cut back on purchasing due to lower production requirements. Inventories of inputs subsequently declined slightly, while stocks of finished items fell fractionally.

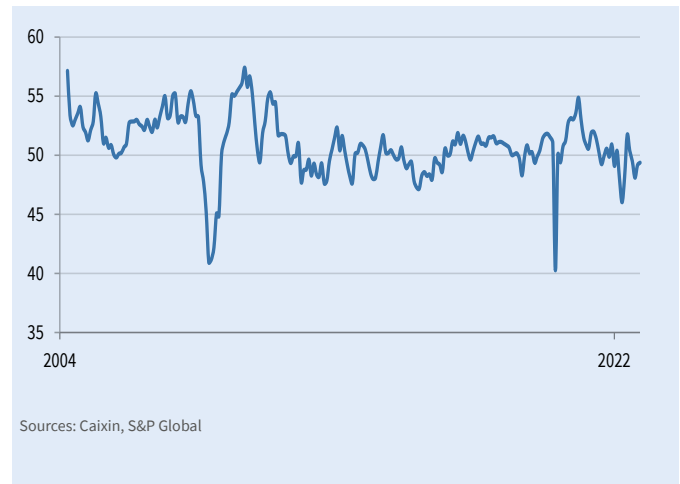
Average vendor performance deteriorated at a solid and accelerated rate, with companies often blaming longer lead times on transportation delays and low inventory levels at suppliers.

At the same time, the rate of input cost inflation picked up in November. Though mild, the latest upturn in expenses was the quickest seen since June amid reports of higher costs for some raw materials such as metals and oil. Selling prices meanwhile declined at the slowest rate for seven months and only slightly, as firms tried to remain competitive.

Companies generally anticipate output to rise in the next year, with optimism underpinned by expectations that the pandemic will recede, allowing operations to normalise and a subsequent rebound in customer demand. Notably, the degree of positive sentiment reached a three-month high.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

- COVID-19 restrictions continue to constrain output
- New orders fall, albeit at softest rate in four months
- Supply chain delays worsen

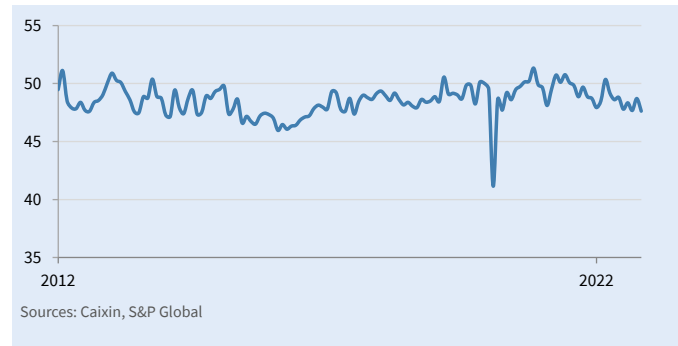
New Export Orders Index

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 November rose 0.2 points from the previous month to 49.4, remaining in contractionary territory for the fourth consecutive month, as Covid-19 outbreaks curtailed manufacturing activity in many parts of China.

“Both manufacturing supply and demand continued to shrink last month due to the spreading Covid outbreaks and subsequent containment measures. The subindices for output and total new orders remained below 50 for a third and fourth straight month respectively, with output weakening at a faster pace. Due to Covid controls at home coupled with rising recession risks overseas, the reading for new export orders remained in contraction for the fourth consecutive month.

“Employment took a dive. The related subindex remained in contractionary territory for the eighth month running, and logged its worst performance since February 2020. The Covid outbreaks made it difficult for some workers to return to their factory jobs, and businesses were less willing to hire due to weaker demand. As the contraction in output offset the weakness in demand, backlogs stayed unchanged in November.

“The gauges for input and output prices diverged for the second consecutive month. As prices of bulk commodities like metals and crude oil ticked up, input costs rose at a slightly faster pace. Given the weakness in demand, it was difficult for manufacturers to pass on their rising input costs. In November, the gauge for surveyed manufacturers’ output prices came in below 50 for the seventh straight month.

“Suppliers’ delivery times grew significantly as Covid controls took a big toll on logistics. The weakness in the market was also reflected in purchases and inventories. In November, measures for quantity of purchases, stocks of raw materials, and inventories of finished products all fell into contraction.

“Businesses were more optimistic. In November, the gauge for manufacturers’ expectations for future output picked up even though economic activity was under pressure from the Covid outbreaks. Although the gauge remained below its long-term average, businesses remained confident that the outbreaks would soon subside.

“Overall, the pandemic continued to take a toll on the economy. Output contracted, total demand was under pressure, overseas demand remained weak, employment deteriorated, logistics was sluggish, and manufacturers faced growing operating pressure. As the measure for suppliers’ delivery times is negatively correlated to the PMI, the fall in the measure partially offset the drop in the PMI, leading the decline in November manufacturing activity to be underestimated.

“Covid outbreaks have been spreading across China since October, and their impact on the economy has grown more and more obvious. How to balance Covid controls and economic growth has once again become a core issue. Top policymakers recently issued clear requirements on how to further optimize Covid prevention and control. How local governments implement these instructions has thus become crucial.

“Under pressures from shrinking demand, weakening expectations and a supply shock, the employment index has remained low for a long time. The downturn in employment coupled with the triple pressures have created a negative feedback loop. The market is in urgent need of policies to promote employment and stabilize domestic demand. Beijing should further coordinate fiscal and monetary policies to expand domestic demand and boost incomes of the poorer parts of the population.”



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 11-22 November 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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