

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

PMI signals softer improvement in manufacturing conditions

The health of China's manufacturing sector continued to improve in December, albeit at the softest rate for three months. Firms signalled slower, but still steep, expansions of output and total new work, while export sales rose modestly. At the same time, companies took a more cautious approach to employment levels amid an accelerated rise in overall input costs, as workforce numbers were broadly unchanged. Looking ahead, firms were still optimistic that output would increase over the next year, though overall confidence dipped to a three-month low.

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 – slipped from 54.9 in November to 53.0 at the end of 2020. The reading signalled a solid improvement in the health of the sector, as the economy continued to recover from the coronavirus disease 2019 (COVID-19) outbreak. That said, the rate of improvement was the softest for three months, having eased from November's decade-high.

Weighing on the headline index was a slower increase in production during December. Nonetheless, the rate of expansion remained sharp overall. Firms also reported a slower, but still marked, increase in overall new orders. Underlying data suggested that this was partly due to weaker growth of new export sales, as demand from foreign clients expanded only modestly.

The sustained and strong rise in new orders led to further pressure on operating capacities, as highlighted by a further increase in outstanding workloads. However, firms were relatively cautious with regards to employment, with staff numbers broadly stagnant compared to the previous month. Some firms mentioned that cost cutting initiatives had weighed on recruitment.

Manufacturers in China registered a sharp and accelerated increase in average input costs in December amid reports of greater raw material costs, particularly for metals. Notably, the rate of inflation was the steepest recorded for three years and led to a quicker rise in prices charged by manufacturers.

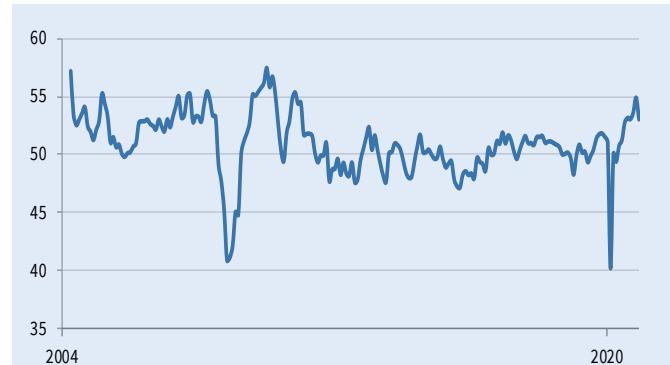
Companies raised their buying activity again in December in response to greater inflows of new work. Though solid, the rate of increase was the softest since August, however. At the same time, stocks of purchased items rose only slightly, while inventories of finished goods were broadly stable.

The average time taken for inputs to be delivered to Chinese manufacturers lengthened further in December. Though mild, the rate at which vendor performance deteriorated was the quickest since April, with a number of firms linking delays to ongoing supply chain disruption as a result of the pandemic.

Chinese goods producers generally expect production to be higher than current levels in one year's time amid forecasts of firmer global demand conditions and an end to the COVID-19 pandemic. Although easing for the second month in a row, the overall level of optimism remained above the long-run trend and was strong overall.

China General Manufacturing PMI

sa,>50 = improvement since previous month



Sources: Caixin, IHS Markit

Key findings:

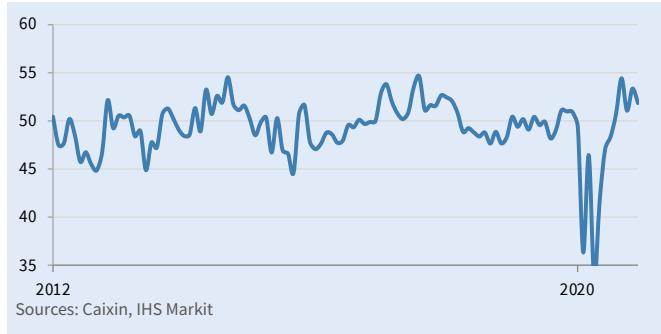
Output and new work expand at slower, but still marked, rates

Staffing levels stagnate, despite further uptick in backlogs of work

Input costs increase at quickest rate for three years

New Export Orders Index

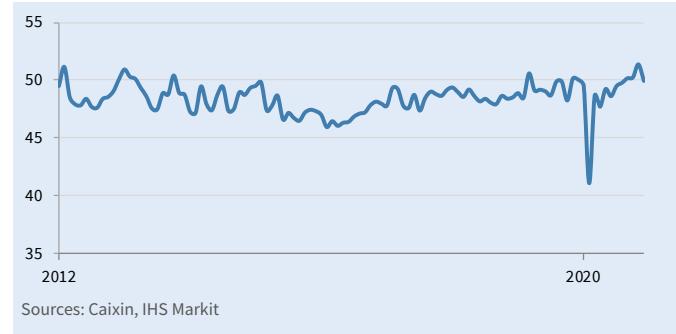
sa, >50 = growth since previous month



Sources: Caixin, IHS Markit

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 came in at 53 in December, dipping from 54.9 the previous month, which was the highest reading since November 2010. The manufacturing PMI remained in expansionary territory as the post-epidemic economic recovery continued."

1. Both demand and supply in the manufacturing industry remained strong, while overseas demand improved. The subindexes for output and total new orders both dipped from the previous month, but remained in expansionary territory for the 10th and seventh consecutive months, respectively. The overseas pandemic situation remained uncertain, but demand for China's exports improved, as the subindex for new export orders stayed in positive territory for the fifth straight month.

2. The gauges for input and output prices both rose significantly, while employment remained stable. Commodity prices continued to climb, and the prices of industrial metals also rose significantly, pushing up the gauge for input costs to the highest point since December 2017. As a result, the gauge for output prices rose to the highest level since June 2018. The pressure brought by cost increases led to hesitation in hiring decisions. In December, the employment subindex was slightly below 50, meaning employment was largely stable.

3. Measurements for inventories showed signs of stable growth. The market remained active. The gauge for the quantity of purchases remained in expansionary territory for the eighth consecutive month, even though it dropped from November. Stocks of purchases continued to expand, but at a slower speed. Stocks for finished goods did not change much overall in December compared

with the previous month, while data showed that inventories rose at consumer-goods makers, but fell at intermediaries and investment-goods producers.

4. The gauge for future output expectations remained strong. Manufacturers remained positive about the outlook for the post-epidemic economic recovery. The gauge remained comfortably above 50 and slightly higher than the long-term average.

"In December, the negative impact of the pandemic on the domestic economy further subsided and the manufacturing industry continued to recover. Both the supply and demand sides continued to improve. Overseas demand also steadily increased. In terms of the trend, we expect the economic recovery in the post-epidemic era to continue for several months, and macroeconomic indicators will be stronger in the next six months, taking into account the low bases in the first half of 2020. Meanwhile, we need to pay attention to the mounting pressure on costs brought by the increase in raw material prices and its adverse impact on employment, which is particularly important for the design of the exit from stimulus policies implemented during the epidemic."



Survey 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

Data were collected 4-14 December 2020.

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>

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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