

Caixin China General Manufacturing PMI™

Manufacturing output rises solidly as COVID-19 restrictions ease

Key findings

Strongest increase in output since January 2011

Sales trend remains subdued, driven by weak external demand

Supply chains stabilise after marked period of disruption

Data were collected 12-20 May 2020

The easing of restrictions related to the coronavirus disease 2019 (COVID-19) pandemic led to a stronger rise in Chinese manufacturing output in May, with the rate of expansion the quickest for over nine years. However, demand conditions remained subdued, largely due to a notable fall in export orders. As a result, firms continued to trim their staff numbers and raised their buying activity only slightly. A lack of new work also led to the first reduction in backlogs of orders since February 2016. Encouragingly, supplier performance was broadly stable in May after travel restrictions and low supply levels hindered vendor performance in prior months.

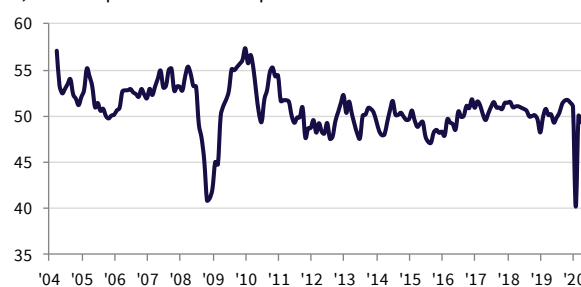
The headline seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – rose from 49.4 in April to 50.7 in May. The above 50.0 reading signalled a renewed improvement in overall operating conditions midway through the second quarter, albeit one that was only marginal.

May data signalled a further increase in output following February's record decline, with firms widely mentioning the resumption of works due to an easing of COVID-19 related measures. The rate of expansion was the quickest since January 2011 and solid.

Demand conditions remained subdued, however, with total new work declining again in May. Data indicated that the fall was largely driven by weaker external demand, as many nations faced strict measures to stop the spread of the

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sa, >50 = improvement since previous month



Sources: Caixin, IHS Markit.

pandemic including company closures, leading new export orders to contract at a historically sharp rate.

A lack of new orders drove the first fall in backlogs of work since February 2016, though the rate of depletion was only slight. The muted demand outlook also led firms to trim their staff numbers again in May. That said, the rate of job shedding was the slowest for four months.

The resumption of production led to a renewed increase in buying activity, but the rate of expansion was only marginal. Manufacturers meanwhile took a relatively cautious approach to inventories in May, with both stocks of purchases and finished items falling since the previous month.

Supply chains stabilised in May, following severe disruptions in prior months due to restrictions related to the COVID-19 pandemic. However, there were still reports of stock shortages at some vendors.

Manufacturers signalled a third successive monthly fall in average input costs. Panel members often mentioned that subdued market demand had led suppliers to cut prices for raw materials. At the same time, factory gate prices were little-changed from the previous month following a three-month period of discounting.

Business confidence picked up in May, with firms generally optimistic that output will rise over the next year. Positive forecasts were often linked to hopes of a global economic rebound once the pandemic situation improves.

Comment

Commenting on the China General Manufacturing PMI data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

“The Caixin China General Manufacturing PMI rebounded to 50.7 in May after falling into contractionary territory the previous month, reaching its highest level since January. Supply was generally stronger than demand in the manufacturing sector, as production continued its expansion amid a broader economic rebound while demand had yet to recover.

1) While manufacturing output continued expanding at a faster clip, total demand only improved slightly due to sluggish external demand. Economic activity gradually came closer to normal with more businesses resuming operations as the domestic coronavirus epidemic was largely brought under control. The output subindex rose further into expansionary territory, posting its highest reading in more than nine years. In contrast, the recovery of demand lagged behind, as the subindex for total new orders remained in contractionary territory despite rising slightly from the previous month. New export orders continued to drop sharply, pointing to a contraction in foreign demand amid the pandemic.

2) The gauge for backlogs of work dropped into negative territory for the first time in more than four years, as supply recovered more strongly than demand, allowing many backlog orders to be fulfilled. A production expansion led to a further drop in inventories of purchased items, and the measure for stocks of finished goods dropped into contractionary territory as logistics recovered. Production resumption also helped boost purchasing activity and the labor market. The gauge for quantities of purchased items returned to expansionary territory, and the employment subindex also rebounded from the previous month, although it remained in negative territory. That said, pressure on the job market should not be underestimated.

3) Downward pressure on prices of industrial products continued. The gauge for input costs rose slightly despite staying in contractionary territory, as bulk commodity prices rebounded in May from a low level the previous month. Output prices remained largely flat amid a slow demand recovery. Manufacturers saw signs of improvement in profitability as the gap between output prices and input costs grew wider.

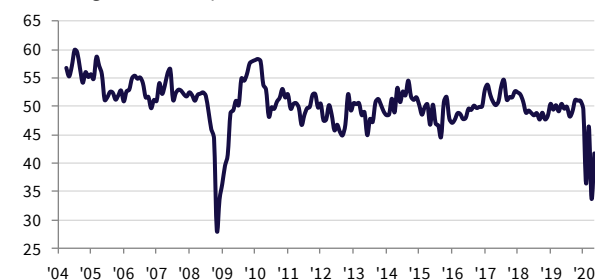
4) The measure for future output expectations rebounded markedly to the same level as before the coronavirus outbreak. Manufacturers’ confidence in the economy for the next 12 months rose sharply, as restrictions were lifted as China’s domestic outbreak abated and its economy returned to normal, and some countries outside China started partially resuming work.

“To sum up, manufacturing production recovered faster than demand as the domestic economy recovered from the epidemic. Sluggish exports remained a big drag on demand

as the virus continued spreading overseas. Stabilizing the job market is a top priority on policymakers’ agenda this year, as shown in last month’s government work report. Boosting employment is not an easy task, as the employment subindex in the Caixin manufacturing PMI survey has remained in contractionary territory for five months in a row.”

New Export Orders Index

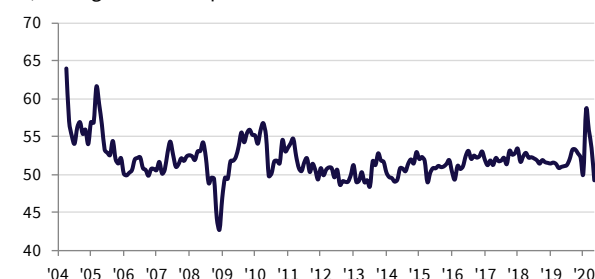
sa, >50 = growth since previous month



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

May data were collected 12-20 May 2020.

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.

For more information, please visit www.caixin.com and www.caixinglobal.com.

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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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