Manufacturing sector conditions deteriorate at softer pace in May

May survey data signalled a move towards more stable operating conditions across China’s manufacturing sector, as firms signalled notably softer falls in both production and new orders. Firms also registered a slower reduction in purchasing activity, though supply chain delays remained severe overall. Prices data meanwhile showed that the rate of input price inflation moderated but remained strong, but efforts to attract new business led to a renewed fall in selling prices.

Companies were more cautious around the 12-month outlook for output in May, with overall optimism slipping to a five-month low amid concerns over the longevity of COVID-19 restrictions and the war in Ukraine.

At 48.1 in May, 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 a 26-month low of 46.0 in April and signalled a third successive monthly deterioration in business conditions. That said, the rate of decline was modest overall.

Helping to move the headline index upwards was a softer reduction in production during May. The rate of contraction eased notably compared to that seen in April, though was nonetheless the second-sharpest recorded since February 2020. Where lower output was reported, firms often attributed this to the ongoing pandemic and subsequent restrictions that had disrupted operations and logistics.

Total new orders fell for the third month running, albeit at a reduced rate. Notably, the latest drop in sales was the slowest seen over this period and only mild, with some firms noting a relative improvement in demand conditions since April. Underlying data indicated that weaker foreign demand was a key factor weighing on new business, as export orders continued to fall markedly, which some firms linked to difficulties in shipping items to clients.

Average suppliers’ delivery times meanwhile continued to lengthen sharply in May, though delays were not as widespread as those seen in April. Panellists frequently mentioned that COVID-19 restrictions had weighed heavily on logistics and transport.

In line with the trend seen for output, purchasing activity fell at a slower, but still marked, rate in May. At the same time, inventories of both finished goods and purchased items fell at mild rates as firms looked to streamline stocks amid relatively muted demand conditions.

Lower production requirements and staff resignations meanwhile led to a further drop in employment across China’s manufacturing sector. Disruptions to operations due to measures to contain the COVID-19 virus meanwhile led to a further increase in backlogs of work.

The rate of input cost inflation moderated for the second month in a row in May, but remained sharp overall. Firms often mentioned that expenses had risen due to higher costs for raw materials, transport and fuel. At the same time, selling prices fell for the first time in five months amid efforts to stimulate client demand. Though modest, the rate of discounting was the quickest seen since April 2020.

Business confidence regarding the 12-month outlook for production slipped to its lowest for five months in May. While many firms were confident of a strong post-pandemic recovery, others cited concerns over the time it will take to contain the virus as well as the Ukraine war.
Commenting on the China General Manufacturing PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

“In May, the Caixin China General Manufacturing PMI came in at 48.1, up from 46 the previous month. Covid outbreaks in several regions across China continued to weigh on the economy. But the rate of contraction in manufacturing was lower than the previous month.

“Both manufacturing supply and demand contracted further. As the latest wave of outbreaks hasn't subsided, both supply and demand in the market have yet to improve. Both the gauges for output and total new orders rose in May from the previous month, but remained in negative territory. Demand was slightly stronger than supply. Overseas demand remained subdued. The measure for new export orders remained in contractionary territory for 10 consecutive months in May as Covid-19 outbreaks continued to impact transportation and logistics.

“Manufacturing employment weakened further. In nine of the past 10 months, the measure for employment was in contractionary territory. Notably, unlike most other gauges, the employment measure fell further into negative territory in May. Employment in the investment goods sector was especially weak. Market demand was also weak. Employers did not have strong motivation to increase hiring.

“Performance of the measures for input and output prices diverged. The prices of raw materials, fuel and freight remained high, adding to the cost pressure on manufacturers. The consumer goods sector was hit especially hard. The gauge for input prices remained in expansionary territory for 24 consecutive months. By comparison, the gauge for output prices fell into negative territory, dropping to its lowest since April 2020 due to weak market demand.

“Logistics was far from being normalized. Affected by the outbreaks and related control measures, the gauge for suppliers' delivery times was well below 50 in May and hit the second lowest since March 2020. Quantity of purchases further declined due to fallout from the outbreaks. Inventories of raw materials and finished goods also declined.

“Entrepreneurs remained optimistic. The measure for future output expectations fell to its lowest in five months in May and was lower than the long-term average. Overall, entrepreneurs were confident that the epidemic will be brought under control, but they still worried whether society and the economy can quickly return to normal. Also, they were concerned about the ongoing war between Russia and Ukraine.

“Overall, activity in the manufacturing sector improved in May, but stayed in contractionary territory as local Covid outbreaks continued. Demand was slightly stronger than supply. And domestic demand was slightly stronger than overseas demand, though both were in negative territory. The epidemic's impact on market supply and demand has transmitted to the labor market, which further weakened. Supply chains were disrupted, and logistics times lengthened further. The gap between costs and output prices further squeezed enterprises' profitability.

“The negative effects from the latest wave of domestic outbreaks may surpass those of 2020. It's necessary for policymakers to pay attention to employment and logistics. Removing obstacles in supply and industrial chains and promoting resumption of work and production will help to stabilize market entities and protect the labor market. Also, the government should not only offer support to the supply side, but also put subsidies for people whose income has been affected by the epidemic on the agenda.”
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 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 12-23 May 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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