PMI

Caixin China General Manufacturing PMI Press Release

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Caixin China General Manufacturing PMI™

Power cuts weigh on manufacturing sector performance in August

China's manufacturing sector saw a slight deterioration in overall business conditions during August, as power cuts and temporary factory closures weighed on output and sales. Production rose at the softest pace for three months, while intakes of new work fell for the first time since May. Subdued demand conditions led firms to cut back slightly on their purchasing activity and inventory levels, while workforce numbers fell modestly. Lower prices for some raw materials, notably metals and chemicals, led to the first fall in input costs since May 2020, which led firms to cut their output charges for the fourth month in a row.

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 – fell from 50.4 in July to 49.5 in August, to signal the first deterioration in operating conditions since May. That said, the rate of decline was only marginal.

Contributing to the sub-50.0 PMI reading was a renewed fall in total new business at Chinese manufacturers. Though only slight, it marked the first drop in sales for three months. Panellists commented that generally subdued market conditions, power cuts and lingering COVID-19 impacts had all dampened overall sales. Foreign demand also fell back into contraction, with new export business decreasing modestly.

Production growth meanwhile eased to a marginal pace that was the softest seen for three months. While there were reports that output was still recovering from pandemic-related disruption, power supply issues and temporary factory closures due to the recent heatwave had constrained overall growth.

Staffing levels at Chinese manufacturers fell for the fifth month in a row, as a number of firms mentioned company downsizing policies due to lower intakes of new work. The rate of job shedding eased from July, however, and was only modest. At the same time, backlogs of work were stable in August, following two months of decline. According to panel members, disruption to power supplies and production schedules had limited their ability to process and complete outstanding business.

Muted customer demand impacted buying activity, which fell for the first time in three months, albeit only slightly. At the same time, firms readjusted their inventory levels and registered mild drops in stocks of both post- and pre-production goods.

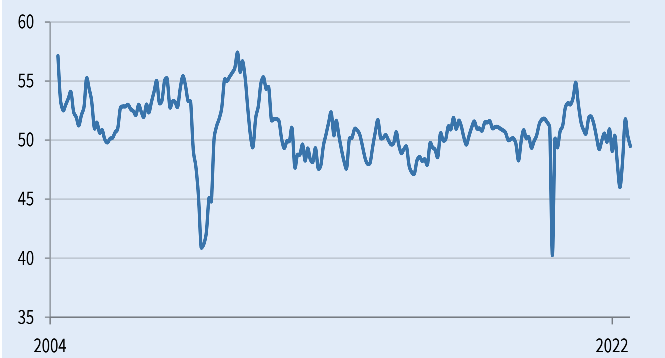
Vendor performance deteriorated for the second month in a row, albeit at a marginal rate. Power cuts at suppliers and lingering COVID-19 disruption were cited as key factors weighing on vendor capacity and lead times in August.

Average input costs fell for the first time since May 2020 during August. Though modest, the rate of reduction was the quickest seen since the start of 2016. Firms often stated that lower prices for some raw materials had helped to pull down expenses, with metals and chemicals mentioned in particular. Efforts to boost competitiveness and attract sales meant that savings were partially passed onto clients, with selling prices falling at the quickest rate since May.

Although Chinese manufacturing firms were generally confident that output would rise over the next year, the level of sentiment was unchanged from July and below the historical trend. Panellists stated that concerns over how long the pandemic will disrupt operations, a deteriorating global economic outlook and sluggish demand conditions all weighed on their projections for the year ahead.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Caixin, S&P Global

Key findings:

Output growth slows as firms face power supply disruption amid heatwave

New orders decline for first time in three months

Input costs fall at quickest rate since January 2016

New Export Orders Index

sa, >50 = growth since previous month

Sources: Caixin, S&P Global

Employment Index

sa, >50 = growth since previous month

Sources: Caixin, S&P Global

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 49.5 in August, down from 50.4 the previous month. A resurgence of Covid-19 infections, coupled with a prolonged heat wave, weighed on the manufacturing sector.

"Manufacturing supply expanded while demand shrank. Although output increased for the third successive month, the rate of expansion was marginal due chiefly to power cuts caused by the heat wave. The subindex for total new orders fell into contraction, with overall market demand dampened by high temperatures and the resurgence of Covid-19 infections in some parts of the country. For similar reasons, new export orders experienced their first drop for three months.

"Employment at manufacturers remained weak. The employment subindex recorded a contraction for the 12th time in the past 13 months, as firms cut staff to save costs. All three types of goods producers — which make consumer, investment and intermediate goods — registered varying degrees of staff reduction in August, with investment-goods makers recording the largest downsizing.

"On the other hand, inflationary pressure eased. Lower prices of some commodities, notably metals and chemicals, led to lower operating expenses and the first fall in average input costs since May 2020. This led to manufacturers cutting output prices for the fourth month in a row and at a steeper rate in an effort to boost sales in the face of subdued demand.

"Supply chains across the sector remained stable in August. The Covid-19 flare-ups and power cuts mildly affected logistics, with average lead times for inputs increasing at a marginal pace. Driven by weakness in the overall market, manufacturers kept lower stocks of raw materials and finished goods.

"Chinese manufacturers remained optimistic. The degree of positive sentiment was unchanged from July, albeit below the historical average. Concerns were raised by firms regarding the resurgence of Covid-19 and a deteriorating global economic outlook.

"Overall, the Covid-19 flare-ups, the extreme heat wave and restricted power usage resulted in a slight deterioration in overall business conditions in the manufacturing sector. Supply remained stronger than demand, with the latter recording a contraction. The job market remained weak, while lower input costs and output prices eased inflationary pressures. At the same time, firms were cautious about increasing purchases and inventory levels. Market sentiment remained optimistic, although some were worried about the global economic outlook.

"Right now, the economy is still slowly recovering from a widespread outbreak of Covid-19 in the first half of the year. Yet, local flare-ups and the punishing heat wave have disrupted the trend and created new downward pressures, posing a threat to the recovery. Although the central bank has recently cut key policy interest rates to guide banks to lower financing costs for companies and individuals, the effect will depend on market players' confidence about the future. In the face of adverse factors such as recurring Covid-19 cases and natural disasters, there needs to be further subsidies and assistance for poor and low-income groups amid a sluggish job market and shrinking consumer demand."

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 12-22 August 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

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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