Caixin China General Manufacturing PMI Press Release

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Caixin China General Manufacturing PMI™

Business conditions improve marginally in July

July survey data pointed to a further improvement in the health of China's manufacturing sector following the easing of COVID-19 containment measures. However, overall growth momentum softened since June amid slower upturns in output and total new work. Relatively subdued demand conditions and efforts to contain costs led to another decline in employment, while firms were able to further reduce backlogs of work. Cost pressures meanwhile eased notably on the month, with average input costs rising at the weakest rate since last December, while prices charged were cut for the third month running.

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 51.7 in June to 50.4 in July, to signal a back-to-back monthly improvement in business conditions. That said, the rate of improvement eased from June's 13-month high and was only marginal.

Weighing on the headline index was a softer rise in overall new business in July. Total new orders rose only slightly, following a mild increase in June. While a number of firms mentioned that the ongoing recovery from the latest wave of the pandemic had supported higher sales, others commented that demand conditions were relatively subdued. New export business likewise expanded only marginally in July.

In line with the trend seen for new orders, manufacturers in China signalled a softer rise in production during July. The expansion was only mild overall, having eased from June's 19-month record. The slowdown was linked to muted customer demand, lingering COVID-19 impacts and power supply disruption at some firms.

Purchasing activity rose for the second month running across China's manufacturing sector in July, albeit modestly. This supported a further rise in stocks of purchased items. Though mild, the rate at which input inventories increased was the fastest for 20 months. Stocks of finished items meanwhile fell slightly, which was linked to the delivery of goods to clients and reluctance among some firms to build up inventories amid subdued client demand.

Employment at Chinese goods producers fell for the fourth month in a row in July. The latest reduction was linked to efforts to contain costs, muted sales and the non-replacement of voluntary leavers. Furthermore, the rate of job shedding was the quickest seen since April 2020. Nonetheless, firms had sufficient capacity to reduce their backlogs of work slightly for the second month in a row.

After broadly stabilising in June, suppliers' delivery times lengthened slightly at the start of the third quarter. Firms often mentioned that stock and staff shortages, and disruption from COVID-19, had weighed on vendor performance.

July survey data signalled the slowest rise in input costs for seven months. Cost burdens rose marginally overall, with panel members indicating that lower prices for some commodities (such as metals) had helped to partially offset higher costs for other materials and transport. Softer demand conditions meanwhile led to a modest reduction in prices charged.

Manufacturers generally anticipate an expansion of output over the next year amid forecasts of a strong post-pandemic recovery and planned company expansions. However, overall optimism weakened slightly since June due to concerns over COVID-19 and relatively subdued customer demand.

China General Manufacturing PMI

sa, >50 = improvement since previous month

Sources: Caixin, S&P Global

Key findings:

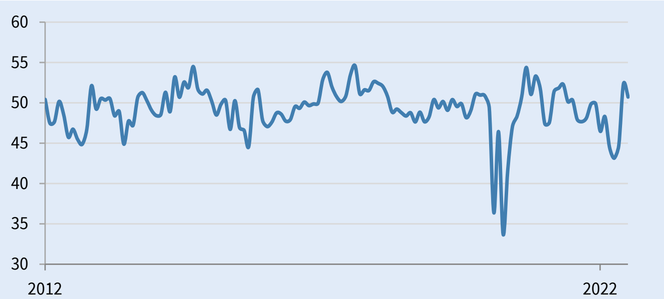
Softer increases in output and new orders

Employment falls at quicker pace

Input cost inflation slows notably, prices charged fall again

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 in July fell 1.3 points from the previous month to 50.4, as the sector continued to recover from recent Covid outbreaks, though at a slower pace.

“Supply and demand improved. Manufacturing production grew for the second straight month. The subindexes for output and total new orders both remained in expansionary territory, but came in lower than in the previous month, indicating a slowing recovery. Electricity shortages faced by some companies and scattered Covid outbreaks in some regions were among factors that cut into market demand and confidence in July. New export orders remained stable, with the gauge slightly higher than 50.

“Employment remained weak. The recovery in supply and demand failed to spill over into the labor market for manufacturing, which continued to shrink. The gauge for employment, which has been in contractionary territory for 11 of the past 12 months, came in at the lowest reading since April 2020. Companies, strongly inclined to lower costs in the face of sluggish market demand, were cautious about expanding their staff.

“Inflationary pressures eased. The growth in costs for manufacturing companies slowed markedly thanks to drops in some bulk commodity prices. The measure for input costs in July read just slightly above 50. Limited market demand suppressed prices on the output side, with the gauge for output prices remaining below 50 for the third straight month. However, output prices for consumer goods increased.

“Overall, logistics were stable. Scattered outbreaks and a lack of raw materials and workers contributed to a slight increase in suppliers’ delivery times. Backlogs of manufacturing work decreased. The quantity of purchases increased, leading to a rise in stocks of raw materials.

“Entrepreneurs remained optimistic. The measure for future output expectations slipped from the previous month and remained below the long-term average. Manufacturers were mainly concerned about the possibility of future outbreaks and contractions in demand.

“In general, the eased Covid situation and restrictions facilitated a continuous recovery in the manufacturing sector in July. Supply and demand continued to improve, with supply stronger than demand. Employment lagged, remaining in contractionary territory. Costs gradually rose, with output prices on the decline, posing challenges for company profits. The market held on to positive sentiment, along with concerns about the economic outlook.

“Major macroeconomic indicators in the second quarter showed that the adverse impact of the latest round of Covid outbreaks on the economy is fading. The third quarter will therefore be a crucial period to get the economy back on track. The manufacturing sector improved for the second straight month in July, though its foundation remained weak. As the authorities have made it clear that no ultra-massive stimulative measures would be forthcoming, effective implementation of existing policies is a more practical option. Moreover, the labor market remained under pressure and the financial situation of low-income groups deteriorated. Therefore, policies should focus on higher degrees of job market stabilization, subsidy issuance and temporary relief measures."

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 12-21 July2022.

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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