

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

Manufacturing output rebounds as pandemic restrictions recede

The reduction in COVID-19 case numbers and subsequent easing of containment measures across China led to a renewed improvement in manufacturing business conditions in June. Output expanded sharply as disruption to operations receded, with the rate of growth the quickest seen for just over a year-and-a-half. New orders and new export sales also returned to growth, though rates of expansion were modest overall. Supply chains were meanwhile broadly stable, which ended a two-year streak of worsening lead times. While firms registered a further marked increase in input costs, prices charged were cut once again as part of efforts to attract sales.

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 – increased from 48.1 in May to 51.7 in June, to signal the first improvement in the health of the sector for four months. Though modest, the rate of increase was the strongest seen since May 2021.

Chinese manufacturers registered the first expansion of output since February at the end of the second quarter. The rate of growth was the quickest seen since November 2020 and sharp, with a number of firms linking the rise to the return to more normal operations and reopening of production lines as COVID-19 restrictions were eased.

Total new orders likewise returned to growth in June, though the rate of increase was only modest. A number of firms mentioned that the lingering impact of the pandemic and relatively subdued demand conditions had impacted new order intakes. New export business also rose modestly.

The return to more normal business conditions also helped to alleviate pressure on supply chains, as highlighted by a broad stabilisation of vendor performance in June. Notably, this ended a 24-month period of lengthening delivery times for inputs.

Although companies saw a rebound in activity in June, they remained relatively cautious in terms of staffing levels. Employment declined for the third month in a row, albeit modestly, with a number of firms linking this to the non-replacements of voluntary leavers as new business intakes were relatively subdued. Furthermore, there appeared little pressure on operating capacities as production schedules resumed, with companies registering a renewed fall in backlogs of work in the latest survey period.

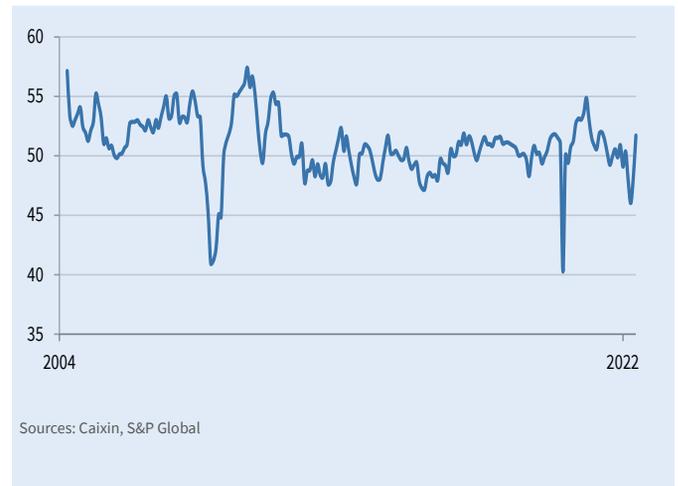
Reflective of the trend seen for new orders, purchasing activity rose modestly in June. Inventories of purchased inputs expanded only fractionally, and stocks of finished goods fell marginally, as some companies were reluctant to build inventories in light of relatively muted demand conditions.

Higher costs for raw materials and transport drove a further sharp increase in input costs in June. Nonetheless, companies cut their selling prices for the second month in a row amid greater market competition and efforts to stimulate sales.

Business confidence regarding the 12-month outlook for output improved to a four-month high in June. Companies were generally upbeat in their forecasts as they anticipated further increases in production as the pandemic recedes and further improvements in client demand.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

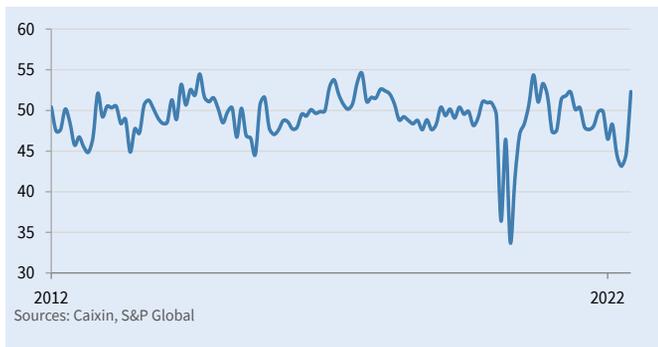
Production increases at quickest rate for 19 months...

...as total new work and export sales return to growth

Supplier performance stabilises

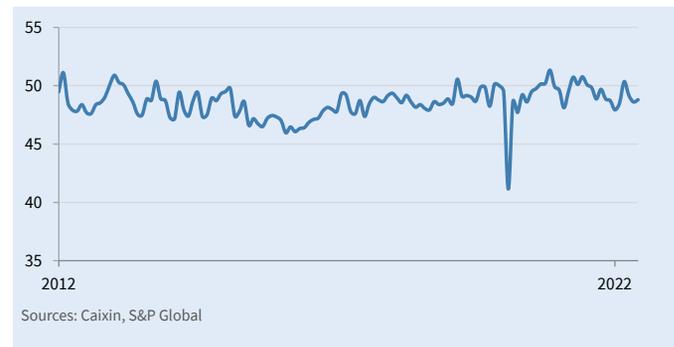
New Export Orders Index

sa, >50 = growth since previous month



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 rose to 51.7 in June, up 3.6 points from the month before and marking the highest reading for 13 months. The easing of regional Covid-19 lockdowns and other restrictions contributed to the recovery.

“Manufacturing supply surged, and demand improved. As Covid restrictions were loosened, production in the manufacturing sector gradually moved toward normality. After three months of contraction, the gauge for output returned to expansionary territory and jumped to its highest point since November 2020. The recovery of manufacturing demand was not as strong as that of supply, but the subindex for total new orders rose above 50 for the first time in four months, and the gauge for new export orders returned to positive territory for the first time since last July.

“Employment remained weak. Improvement in manufacturing supply and demand did not spill over into the labor market, with companies being cautious about expanding recruitment. The gauge for employment remained in negative territory for the 10th time in the past 11 months.

“Divergence between input costs and output prices continued. The prices of raw materials and freight remained high, adding to manufacturers’ costs. The gauge for input costs remained in expansionary territory for the 25th consecutive month. As the recovery in demand was limited, the measure for output prices remained in contractionary territory for the second month. But the survey showed that consumer goods companies had stronger bargaining power than their investment and intermediate goods counterparts.

“Logistics gradually stabilized. While supply has not fully recovered from lockdown-induced disruption, some companies reported sharp decreases in suppliers’ delivery times. The gauge for suppliers’ delivery times topped

50 for the first time in two years. The quantity of manufacturing purchases greatly increased, while backlogs of work declined.

“Entrepreneurs remained optimistic. The measure for future output expectations climbed to the highest since February, yet was still lower than the long-term average. Business owners expressed concern over the negative impact of future domestic Covid outbreaks and the state of the global economy.

“Overall, Covid lockdowns and other restrictions eased in June, facilitating a gradual recovery in manufacturers’ operations. Supply and demand were on the rise, with supply improving more. Delivery and logistics recovered hand in hand. The job market lagged the positive signs, remaining in negative territory. Input costs and output prices continued to diverge, posing profit challenges.

“Restoration in the post-pandemic era remained the focus of the current economy, yet its base was far from strong. Deteriorating household income and expectations caused by a weak labor market dampened the demand recovery. Correspondingly, supportive policies should target employees, gig workers and low-income groups impacted by the outbreaks.”



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 13-22 June 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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