

Caixin China General Manufacturing PMI™

Manufacturing sector conditions continue to strengthen in June

Key findings

Output expands again as sector continues to recover from COVID-19 crisis

Total new work increases for the first time since January...

... but external demand remains subdued

Data were collected 12-22 June 2020

The recovery in manufacturing sector conditions in China continued in June, with firms signalling a further rise in production and a renewed increase in total new business. The upturn was supported by the recent easing of measures related to the coronavirus disease 2019 (COVID-19) outbreak, which enabled more firms to resume normal business operations and a general improvement in market conditions. However, export work continued to fall amid reports of weak external demand. Nonetheless, business confidence rose to a four-month high, while firms expanded their purchasing activity at a quicker rate.

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 50.7 in May to 51.2 in June, to signal a second successive monthly improvement in the health of the sector. Though modest, the rate of improvement was the strongest recorded since December 2019.

Chinese manufacturers signalled increased production for the fourth month running in June, as businesses continued to recover from company shutdowns and restrictions that were put in place earlier in the year due to the COVID-19 outbreak. Although the rate of output growth softened since May, it remained solid overall. A number of firms also linked the latest increase in output to rising new order volumes amid signs of firmer client demand. Notably, total new orders expanded for the first time since January, albeit modestly. Underlying data indicated that stronger domestic demand predominantly boosted sales, as new export orders

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sa, >50 = improvement since previous month



Sources: Caixin, IHS Markit.

continued to decline.

Employment meanwhile remained on a downward trend in June, with staffing levels falling for the sixth month running. Firms often commented on the non-replacement of voluntary leavers and planned redundancies. At the same time, greater volumes of new work led to a renewed increase in outstanding business, albeit marginal.

As new orders increased, firms expanded their purchasing activity at a quicker pace in June. Though modest, the increase in buying activity was the joint-quickest since January 2018. Consequently, stocks of purchased items increased for the first time in six months. Inventories of finished goods meanwhile declined further, albeit at a fractional rate.

Survey data signalled a slight deterioration in vendor performance during June, as travel restrictions related to COVID-19 continued to impact logistics.

Average input prices increased for the first time in four months at the end of the second quarter. The rate of inflation was solid overall, with a number of companies mentioning that raw material costs had risen amid signs of firmer market conditions. However, selling prices rose only slightly as overall pricing power was restricted due to tough market competition.

Chinese manufacturers were generally confident that output would be higher than current levels in 12 months time. Furthermore, the degree of positive sentiment improved to its strongest since February. Firms linked upbeat forecasts to expectations that market conditions and demand will

continue to recover.

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 stood at 51.2 in June, the highest reading so far this year. The manufacturing sector continued to expand, as most of the country had the epidemic under control and the economy continued to recover.

1) Overall manufacturing demand recovered at a fast clip, but overseas demand remained a drag. Production expanded for the fourth straight month in June, but the pace was slower than the previous month. In contrast, demand improved remarkably. The subindex for total new orders expanded for the first time since January, as gradual lifting of epidemic control measures allowed production to return to normal. New export orders continued to fall amid weak external demand, as the epidemic situation overseas remained uncertain in many places and the number of new daily infections remained high.

2) The improvement in demand led to a decline in stocks of finished goods. Stocks of purchased items grew as companies increased purchases. The subindex for stocks of purchased items and the gauge for quantity of purchases both hit the highest levels since the first quarter of 2018, reflecting manufacturers’ growing willingness to expand production. Suppliers’ delivery times lengthened slightly, probably due to flare-ups of the epidemic in some places.

3) Employment remained weak. Although the manufacturing sector as a whole recovered in terms of supply and demand in June, employment did not improve. The employment subindex remained in negative territory for the sixth consecutive month, even running weaker than the previous month. Manufacturers remained cautious about increasing hiring. Some companies still had layoffs planned and were in no hurry to hire new workers to fill vacancies.

4) Input costs and output prices both rose. The gauge for input costs returned to expansionary territory, as the recovery of production and a rise in raw material prices pushed up costs. The gauge for output prices edged up further into positive territory. Respondents said that the market was in the process of recovering, and that the sell side was facing relatively large competition and had limited pricing power.

“Overall, the manufacturing sector continued to recover in a post-epidemic period, and both supply and demand improved. Around mid-June, the epidemic flared back up in some parts of China, but its impact on the overall economy was limited. The gauge for future output expectations continued to rise in June, reflecting manufacturers’ confidence that there would be a further relaxation of epidemic controls and a normalization of economic

activities. Meantime, we should still pay attention to the pressure on employment. Top policymakers have repeatedly stressed the importance of expanding employment channels. For some time to come, increasing employment will remain an arduous task.”

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

June data were collected 12-22 June 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.

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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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