PMI

Caixin China General Manufacturing PMI Press Release

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Caixin China General Manufacturing PMI™

Softer rise in manufacturing production in June

Latest PMI data revealed a softer improvement in operating conditions across China's manufacturing sector during June. Production growth slowed notably from May's 11-month high, while new order growth remained mild overall. At the same time, firms registered a further improvement in supplier performance and input costs declined solidly. Cost savings were generally passed on to clients, as firms looked to boost their competitiveness.

Optimism around the 12-month outlook for production waned to an eight-month low in June, as some firms expressed concerns over relatively sluggish market conditions. Notably, manufacturers cut their staffing levels for the fourth straight month due to weaker than expected sales and efforts to readjust capacity.

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 – remained above the neutral 50.0 level at 50.5 in June, signalling a back-to-back improvement in the health of the sector. That said, the reading was down from 50.9 in May and indicative of only a marginal improvement that was below the series trend.

After rising at the quickest rate in 11 months in May, Chinese manufacturing output expanded only slightly in June. Where production increased, companies often linked this to firmer demand conditions and greater intakes of new work.

Total new business expanded modestly in June, with the pace of growth slowing slightly from May. Data suggested that the upturn was largely driven by improved domestic sales, as new export business was broadly unchanged. There were a number of reports that relatively weak global economic conditions had dampened foreign demand.

Nevertheless, the back-to-back rise in total new order volumes led companies to expand their purchasing activity again in June. This in turn contributed to a further increase in inventories of inputs, though the rate of accumulation was only marginal. However, stocks of finished items fell slightly again.

Manufacturers in China maintained a cautious approach to employment, which fell for the fourth month in a row. The modest reduction in headcounts was often attributed to muted sales growth and efforts to readjust capacities. Moreover, firms signalled little pressure on current production schedules, with backlogs of work rising only slightly in June.

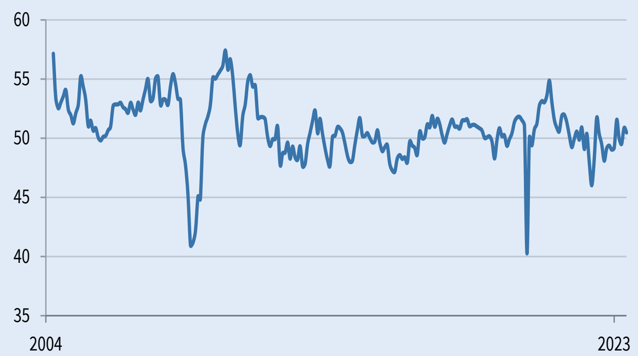
Companies registered quicker delivery times for inputs again at the end of the second quarter, albeit with the rate of improvement remaining marginal. Faster lead times were often linked to the increased availability of raw materials.

The improved supply situation and softer than expected demand placed further downward pressure on prices. Notably, input costs fell at a solid pace that was the quickest seen since January 2016. Panel members widely cited lower costs for raw materials, including steel, cement, food and oil. However, increased market competition and efforts to boost sales led firms to generally pass on cost savings to clients through reduced selling prices.

When assessing the 12-month outlook for output, companies were generally optimistic in June amid hopes of stronger economic conditions and improved sales. That said, the degree of positive sentiment edged down to an eight-month low, as some firms expressed concerns over relatively sluggish market conditions.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Caixin, S&P Global PMI

Key findings:

Output expands marginally as demand growth remains mild

Input prices fall at quickest rate since January 2016

Business confidence slips to eight-month low

New Export Orders Index

sa, >50 = growth since previous month

Sources: Caixin, S&P Global PMI

Employment Index

sa, >50 = growth since previous month

Sources: Caixin, S&P Global PMI

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 June fell to 50.5, shedding 0.4 points from May as manufacturing conditions picked up for the second straight month, though at a marginally slower pace.

"Both manufacturing supply and demand improved only slightly in June. Manufacturing output growth slowed from May, although the relevant subindex stayed above 50 for the fifth month in a row. Meanwhile, demand growth remained restrained, with the subindex for total new orders landing in expansionary territory for the fourth time in the past five months. Growth stemmed largely from the domestic market, while overseas demand remained more or less stable amid the global economy's ongoing sluggishness. The gauge for new export orders came in just slightly above the neutral level of 50.

"The manufacturing job market continued to deteriorate. The employment subindex came in well below 50 in June, although it bounced back from a more than three-year low in May. As demand growth missed expectations, and manufacturing enterprises continued to adjust capacity, the job market contracted for the fourth straight month, especially for producers of investment goods. The falling number of workers in the sector didn't have much of an effect on the gauge for backlogs of work, which stood slightly above 50 in June.

"Prices continued to plunge, with the readings for input and output prices both coming in significantly below 50 for the third straight month. In particular, input prices fell at the fastest pace since January 2016, indicating that deflationary pressures continued to mount. In June, the costs of bulk commodities, including steel, cement, food and oil, dipped by varying degrees. Manufacturers' bargaining power remained weak in terms of the prices they could charge customers due to limited demand.

"Supplier delivery times improved further in June. The related subindex stayed in expansionary territory as suppliers maintained sufficient stocks and their delivery times got even shorter. Meanwhile, manufacturers' quantity of purchases grew marginally, slightly pushing up their stocks of raw materials.

"Manufacturers became less optimistic, with the reading for expectations for future output dipping to a low not seen since October, though it held above 50. Some of the surveyed manufacturers expressed concerns about the slower-than-expected economic recovery.

"In a nutshell, manufacturing activity growth suffered a marginal slowdown. Both supply and demand picked up slightly, the job market got worse, logistics improved, businesses stepped up purchasing, raw material inventories grew marginally, prices continued to slump, and manufacturers' optimism wavered.

"A slew of recent economic data suggests that China's recovery has yet to find a stable footing, as prominent issues including a lack of internal growth drivers, weak demand and dimming prospects remain. Problems reflected in June's Caixin China manufacturing PMI, ranging from an increasingly dire job market to rising deflationary pressure and waning optimism, also point to the same conclusion. In the future, stronger policy support is needed on the macro level, along with higher implementation efficiency from a micro perspective, to ensure that policies benefit market players directly and therefore bolster employment and market expectations."

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 June 2023.

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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Contact

Dr. Wang Zhe
Senior Economist
Caixin Insight Group
T: +86-10-8590-5019
zhewang@caixin.com

Ma Ling
Brand and Communications
Caixin Insight Group
T: +86-10-8590-5204
lingma@caixin.com

Annabel Fiddes
Economics Associate Director
S&P Global Market Intelligence
T: +44 1491 461 010
annabel.fiddes@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +82 2 6001 3128
sungha.park@spglobal.com

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