PMI

Caixin China General Manufacturing PMI Press Release

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财新 Caixin

Caixin China General Manufacturing PMI™

Manufacturing conditions soften slightly in July

Manufacturing conditions in China moderated slightly in July, according to latest PMI survey data. Firms signalled a marginal fall in production amid a fresh decline in overall new business. Muted foreign demand was a key factor weighing on total sales, with new export orders down noticeably in July. Subdued market conditions prompted firms to scale back their purchasing activity and trim their staffing levels slightly. At the same time, cost pressures continued to subside, as average input prices fell for the fourth straight month, which in turn supported a further reduction in selling charges.

When assessing the year-ahead outlook for output, firms were their most upbeat since April. That said, overall confidence remained below the survey's historical trend.

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 50.5 in June to 49.2 in July and thereby signalled a deterioration in overall business conditions. Though only marginal, it marked the first PMI reading below 50.0 for three months.

Dampening the headline index was a renewed fall in new business received by Chinese goods producers. Though mild, the reduction contrasted with rising sales volumes in the preceding two months. Companies often commented that relatively sluggish market conditions both at home and overseas had impacted customer demand. Notably, new export business contracted at a solid pace that was the fastest since September 2022. Softer demand conditions led manufacturers to cut production for the first time since January, albeit marginally.

Purchasing activity followed an identical trend to output; falling slightly for the first time since the start of the year. Inventories of inputs meanwhile expanded only fractionally, with growth easing from June. Concurrently, stocks of finished goods were accumulated for the first time since October 2022, albeit marginally. Companies that noted an increase in inventories often mentioned that output had exceeded sales.

Employment across China's manufacturing economy fell for the fifth straight month in July. The pace of job shedding eased further from May's recent record, however, and was only mild. Lower payroll numbers were often attributed to reduced sales, but also efforts to cut costs. Pressure on operating capacities remained muted, with the latest survey showing a further marginal rise in backlogs of work.

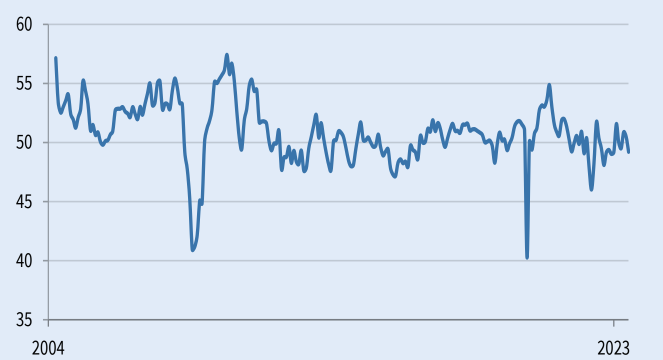
After improving in each of the prior five months, supplier performance worsened slightly in July. There were reports that a lack of stock at some vendors had impacted lead times as they adopted leaner inventory policies in response to the softer demand environment.

Average input costs continued to fall in July. The rate of reduction was the softest seen over the current four-month sequence of decline, however, and only mild. Panel members often commented on lower raw material costs, with metals mentioned in particular. At the same time, competitive pricing strategies and price negotiations with clients led to another reduction in average output charges.

Companies were generally confident in July that output would rise over the next year. The degree of optimism remained historically subdued overall, however, as concerns over sluggish domestic and foreign market conditions persisted.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Caixin, S&P Global PMI

Key findings:

Output contracts marginally

Fresh fall in total sales amid steeper decline in new export orders

Input costs and output charges decrease again

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 came in at 49.2 in July, 1.3 points lower than the June reading. It was the first time in three months that Chinese manufacturing conditions had contracted, indicating that the sector was weakening.

"Both manufacturing supply and demand contracted. The market has been lukewarm, with sluggish demand, and supply has shrunk in tandem. The readings for total new orders and output were the lowest since December and January, respectively. Notably, new export orders fell sharply in July, as risks of an overseas recession mounted, and China's external demand was clearly insufficient. The gauge for new export orders plumbed the lowest since September.

"The manufacturing job market continued to deteriorate, though the contraction was marginally smaller than in the second quarter. With market demand limited, manufacturing companies laid off workers to reduce costs and improve efficiency in July. Backlogs of work were more or less stable. Some surveyed manufacturers said that the tight supply of electricity in the summer hurt order deliveries.

"The gauges for prices remained weak, with the reading for input costs and output prices coming in below 50 for the fourth and fifth consecutive months, respectively. Deflationary pressure continued to build. The decline in the prices of bulk commodities such as industrial metals has dragged down the costs of production, and the market downturn and insufficient demand have prevented companies from raising prices for their customers.

"Supplier delivery times got a bit worse in July. The time it takes suppliers to deliver their products increased for the first time in the past six months, with the corresponding subindex coming in at its lowest reading since January. That was because some suppliers reduced their desired inventory levels amid a sluggish macroeconomic environment, leading to shortages in the supply of some raw materials. In addition, there was a slight increase in the inventories of finished goods in July, but surveyed businesses said they didn't take the initiative to replenish their inventories.

"Manufacturers remained optimistic. The July reading for their expectations for future output stayed above 50, though the figure came in below the historical average. Some surveyed companies expressed concerns about the economic prospects at home and abroad.

"Overall, manufacturing conditions contracted in July, with supply, demand, exports and employment all deteriorating. Prices continued to decline, inventories rose without companies adjusting them, and logistics times increased. Manufacturers maintained their optimism, but to a lesser degree.

"China's economic recovery in the first quarter exceeded expectations, but the momentum weakened in the second. Although the data for industrial production and investment in June showed some signs of recovery, macroeconomic growth remained sluggish, and considerable downward pressure on the economy persisted.

"The July Politburo meeting highlighted that the current economy faces new difficulties and challenges, and that the external environment is complex and severe. The meeting emphasized the need to actively expand domestic demand and let consumption play a fundamental role in driving economic growth. In terms of policies, guaranteeing employment, stabilizing expectations and increasing household income should still be the top priorities. At present, monetary policy only has limited effect on boosting supply. An expansionary fiscal policy that targets demand should be prioritized."

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 July 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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