Caixin China General Manufacturing PMI™

Output rises at quickest rate for four months in June

Summary

China's manufacturing sector expanded further in June, with companies registering sustained increases in output and new orders. That said, demand from overseas remained subdued, as new export sales fell for the third month running. At the same time, optimism towards the year ahead fell to a six-month low, while employment declined at the quickest pace since July 2017.

Inflationary pressures picked up at the end of the second quarter, with input costs and output charges rising at the fastest rates in five and 11 months respectively.

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 fractionally from 51.1 in May to 51.0 in June, to signal a further marginal improvement in operating conditions. The health of the sector has now strengthened in each of the past 13 months, with the latest improvement broadly in line with the historical trend.

June survey data signalled a further increase in Chinese manufacturing production, with the rate of growth edging up to a four-month high. That said, the pace of expansion remained moderate overall.

Supporting the latest upturn in production was a sustained rise in new business. As was the case for output, the rate of growth was moderate and similar to those seen in the prior two months. In contrast, new export sales fell for the third month in a row amid reports of subdued foreign demand.

Manufacturers signalled a further reduction in workforce numbers during June. Anecdotal evidence indicated that lower headcounts were due to retirements, company downsizing policies and insufficient workloads. Notably, the rate of job shedding was the steepest seen for 11 months. Reduced payrolls meanwhile contributed to a further modest rise in backlogs of work.

Increased production needs led firms to expand their purchasing activity again in June, albeit to the weakest degree in three months. At the same time, firms exhibited a relatively cautious approach to their inventory levels, with stocks of both purchased and finished items declining at the end of the second quarter.

Low stock levels among vendors and strict environmental policies led to a further deterioration in supplier performance in June.

The rate of input price inflation picked up to the sharpest in five months in June. A number of monitored firms commented on rising raw material costs, including items such as steel. As a result, manufacturers raised their prices charged, and at the steepest rate since last September.

Finally, goods producers in China remained optimistic that production levels would rise over the next year. However, the level of positive sentiment was the lowest recorded for six months, amid concerns of rising costs and stricter environmental policies.

Key Points

- Production expands at faster pace...
- ...despite softer rise in total new orders and further decline in export sales
- Staffing levels fall at quickest rate for nearly a year

Comment

Commenting on the China General Manufacturing PMI™ data, Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said:

"The Caixin China General Manufacturing PMI stood at 51.0 in June, dropping slightly from a month earlier but remaining in expansion territory. The output index continued to rise, suggesting that manufacturing supply was relatively strong. The new order index dropped marginally, and the employment index dropped for the second consecutive month, indicating worsening layoffs. The index for new export orders fell to a low for the year so far and remained in contraction territory, pointing to a grim export situation amid escalating trade disputes between China and the U.S., which led to weak demand across the manufacturing sector.

"The indices for output charges and input prices both rose, with the latter jumping sharply, continuing to drive the output index upward and suggesting that the year-on-year growth of the producer price index probably continued to rise significantly in June. Corporate profits could have been squeezed due to the rapid rise in input prices, leading to a dip in the future output index. The two indices measuring stocks of finished goods and purchases both dropped, with the latter falling into contraction territory for the first time this year, reflecting that the manufacturing sector is stepping into a destocking phase amid weak demand. The suppliers' delivery times index remained in contraction territory, indicating delivery delays and poor capital turnover among manufacturing suppliers.

"Overall, the manufacturing PMI survey pointed to strengthening price pressures in June. Deteriorating exports and weak employment, along with companies' destocking and poor capital turnover, put pressure on the manufacturing sector."

Continued…

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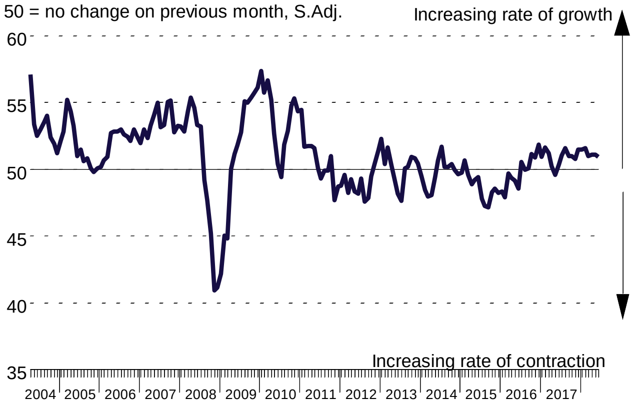

Sources: IHS Markit, Caixin.

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Notes to Editors:

The Caixin China Report on General Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 500 manufacturing companies. The panel is stratified by company size and Standard Industrial Classification (SIC) group, based on industry contribution to Chinese GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights applied: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Historical data relating to the underlying (unadjusted) numbers and seasonally adjusted series are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

About Caixin:

Caixin Media is China's leading media group dedicated to providing financial and business news through periodicals, online content, mobile applications, conferences, books and TV/video programs.

Caixin Insight Group is a high-end financial data and analysis platform. The group encompasses the monthly Caixin China Purchasing Managers' Index™, components of which include the Caixin China General Manufacturing PMI™ and Caixin China General Services PMI™. These indexes are closely watched worldwide as reliable snapshots of China's economic health.

For more information, please visit www.caixin.com and www.caixinglobal.com.

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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 https://ihsmarkit.com/products/pmi.html