Latest PMI data signalled a solid improvement in the health of China’s manufacturing sector in July, as market conditions continued to recover from the coronavirus disease 2019 (COVID-19) outbreak. Companies registered the quickest expansions of output and new orders since January 2011 amid reports of firmer customer demand. New business from overseas meanwhile fell at the slowest rate for six months. Increased production led to the strongest rise in purchasing activity since January 2013. However, firms maintained a cautious approach to hiring, with staff numbers falling modestly despite an increase in backlogs of work. Inflationary pressures picked up, with firms reporting steeper increases in both input prices and output charges.

At 52.8 in July, 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 – rose from 51.2 in June to signal a further improvement in the health of China’s manufacturing economy. Operating conditions have now improved in each of the past three months, with the latest upturn the strongest since January 2011.

Supporting the higher PMI figure was a steeper increase in production across Chinese manufacturing firms. Output expanded for the fifth month in a row, and at the fastest rate for nine-and-a-half years, with many companies citing greater client demand amid a further recovery in market conditions following the COVID-19 outbreak. Moreover, new business expanded at a solid pace that was the steepest since the start of 2011.

Rising new order intakes placed some pressure on capacity, as highlighted by a further increase in outstanding business. The rate of accumulation quickened since June but was modest overall. Although backlogs increased, companies cut their staffing levels again in July, albeit only slightly. Lower employment was generally attributed to efforts to increase efficiency, often through redundancies or the non-replacement of voluntary leavers.

Higher operational requirements led manufacturers to increase their buying activity again in July. Furthermore, the rate of expansion was the most marked in seven-and-a-half years. Consequently, stocks of inputs rose for the second month running.

The time taken for purchased items to be delivered to goods producers continued to lengthen in July, albeit modestly. Companies frequently mentioned that the pandemic and stock shortages at vendors had negatively impacted delivery times.

The fulfilment of orders meanwhile led to a further reduction in inventories of finished items at the start of the third quarter. That said, the rate of depletion remained marginal.

July survey data signalled a solid rise in average input costs faced by Chinese manufacturing firms. Anecdotal evidence indicated that higher operational expenses were due to greater prices for raw materials. As a result, companies raised their prices charged. Though modest, the rate of increase was the sharpest recorded since August 2018.

Companies were generally confident that output would be higher than current levels in 12 months’ time. Growth forecasts were underpinned by expectations that economic activity and client demand will continue to recover from the pandemic.

Key findings:
Output and new orders both rise at fastest rates for nine-and-a-half years
Export sales fall at softer pace
Inflationary pressures pick up
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 52.8 in July, up from 51.2 the previous month, reflecting that the manufacturing sector continued to expand amid the ongoing economic recovery.

1) Manufacturing demand and supply continued to recover, but overseas demand remained subdued. In July, manufacturing output and demand expanded at a faster pace than the previous month, with the subindexes for output and total new orders both hitting their highest levels since January 2011, as the domestic epidemic was largely under control. Due to the impact of the overseas pandemic, the gauge for new export orders remained in contraction territory for the seventh consecutive month. Although the pace of the contraction slowed, overseas demand remained a drag on overall demand.

2) As production and demand expanded, measures for purchases and stocks of purchased items both remained strong. Active production activities drove the gauge for quantity of purchases to rise for the third consecutive month, reaching the highest since January 2013. Meanwhile, active stock replenishment led the subindex for stocks of purchased items to expand for the second consecutive month, reaching a high not seen since February 2018. The gauge for stocks of finished goods stood slightly below 50, and the gauge for backlogs of work continued to expand, reflecting strong demand.

3) Employment remained weak. The subindex for employment stayed in negative territory for the seventh consecutive month, although the contraction was marginal. The survey found that some companies increased recruitment to meet production needs, but some others remained cautious and laid off workers to reduce costs. The gauge for future output expectations remained in positive territory. However, to increase employment, manufacturers will need more time and confidence.

4) Input costs and output prices both rose at a faster clip. The gauge for input costs continued to rise, and the gauge for output prices increased strongly. Raw material prices continued to recover, and the recovery of market demand contributed to that price rise. Data from the National Bureau of Statistics showed that the producer price index (PPI) in June returned to growth month-on-month, and its year-over-year decline narrowed. We expect the PPI to rise in the future.

"Overall, flare-ups of the epidemic in some regions did not hurt the improving trend of the manufacturing economy, which continued to recover as more epidemic control measures were lifted. The supply and demand sides both improved, with relevant indicators maintaining strong momentum. However, we still need to pay attention to the weakness in both employment and overseas demand."
Survey 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

Data were collected 13-23 July 2020.
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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