Chinese manufacturers signalled a slight deterioration in business conditions in August, driven by a renewed drop in output and a further fall in new work. Panellists often stated that the resurgence of the COVID-19 virus at home and abroad had weighed on the sector’s performance. Restrictions to contain the virus also impacted supplier performance, which deteriorated solidly, while shortages led to steeper rises in cost burdens and prices charged. At the same time, subdued market demand led firms to trim their purchasing activity and payroll numbers slightly.

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 – posted below the neutral 50.0 level at 49.2 in August, down from 50.3 in July, to signal a deterioration in the health of the sector. Though only marginal, it was the first time that business conditions had worsened since April 2020, with the index dipping to its lowest level for a year-and-a-half.

Chinese goods producers recorded the first fall in output since February 2020 in August. Survey respondents frequently mentioned that the recent uptick in COVID-19 cases and subsequent restrictions had impacted production, dampened demand and led to greater difficulties sourcing inputs.

Total new work fell for the second month in a row and, though only mild, the reduction was the fastest seen since April 2020. Panellists commented on relatively muted demand both at home and overseas amid a resurgence of the COVID-19 pandemic. New export orders declined for the first time since February, albeit modestly.

Companies registered a fractional fall in employment during August, after payrolls were broadly unchanged in July. Some firms mentioned reducing their staff numbers due to reduced output requirements. Consequently, backlogs of work increased again, and at the fastest rate since May.

Lower production requirements led to a renewed fall in purchasing activity in August. That said, the rate of decline was only marginal. At the same time, stocks of purchased items fell for the second month in a row. Inventories of finished goods meanwhile rose for the first time in six months, albeit only slightly, as some firms cited difficulties in shipping goods to clients and muted sales.

Supplier performance deteriorated again in August. Lead times increased to the greatest extent since February and solidly overall, as firms reported logistical delays due to the pandemic and relatively low stock levels at vendors.

Higher raw material prices and greater transportation costs drove a further marked rise in overall input prices. The rate of cost inflation picked up for the first time in three months and was sharp overall. At the same time, factory gate prices rose only modestly, despite the rate of increase picking up since July.

Business confidence remained strong overall, albeit with the overall degree of optimism unchanged from July’s 15-month low. Concerns over how long the pandemic will take to be brought under control globally weighed on overall sentiment.
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 August, down from 50.3 the previous month and falling into contractionary territory for the first time since April 2020. The reappearance of Covid-19 clusters in several regions beginning in late July has dealt a blow to manufacturing activity.

“Both supply and demand in the manufacturing sector shrank as the Covid-19 outbreaks disrupted production. The gauges for output, total new orders and new export orders all dropped into negative territory. Output shrank for the first time since February 2020. Demand for intermediary products and investment goods also dropped, while that for consumer goods was relatively stable. Exports fell amid logistics disruptions and as the pandemic continued overseas.

“The job market shrank slightly amid the Covid-19 pressure. The subindex for employment fell into contractionary territory for the first time in five months, leading to a rise in backlogs of work.

“Inflationary pressure remained high. Input costs rose for the 15th month in a row and the growth rate accelerated in August after slowing for two consecutive months. Transportation costs rose and raw material prices remained high. The gauge for output prices stayed in expansionary territory, but growth was moderate. Some surveyed manufacturers said demand was sluggish due to the pandemic and their ability to pass rising costs onto clients was limited.

“Suppliers’ delivery times continued rising as measures to contain the Covid-19 outbreaks disrupted logistics and some suppliers experienced raw material shortages. The gauge for delivery times hit the lowest point since February. The quantity of purchases dropped amid the sluggish market, and stocks of finished goods rose slightly.

“The latest Covid-19 resurgence has posed a severe challenge to the economic normalization that began in the second quarter of last year. Manufacturing shrank in August as both supply and demand weakened. Meanwhile, overseas demand also dropped. The job market weakened slightly, though it managed to maintain overall stability. Manufacturers cut purchases, leading to a rise in stocks of finished goods.

“Meanwhile, raw material prices remained high along with inflationary pressure. Surveyed manufacturers remained optimistic about the business outlook, but the gauge for future output expectations stayed below the long-term average.

“Official economic indicators for July were worse than the market expected, indicating mounting downward pressure on economic growth. Authorities need to take a holistic view and balance containing Covid-19, stabilizing the job market, and maintaining stability in supply and prices.”
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 12-20 August 2021.
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

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