

Caixin China General Manufacturing PMI™

Manufacturing conditions broadly stable in July

Summary

PMI data indicated that operating conditions across China's manufacturing sector were broadly stable at the start of the third quarter. Output was little-changed following a decline in June amid a slight increase in overall new orders. Subdued demand conditions nonetheless prompted firms to lower their workforce numbers again in July, and at a quicker pace, while inventories of both inputs and finished goods declined. Cost pressures weakened, with input prices rising only slightly while selling prices fell. Encouragingly, business confidence regarding the year ahead outlook for output picked up from June's record low, but remained subdued over lingering concerns regarding the China-US trade dispute and softer global economic conditions.

At 49.9 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 – posted only fractionally below the neutral 50.0 level to signal broadly stable conditions across China's manufacturing sector. This followed a marginal deterioration in the health of the sector during June (PMI reading of 49.4).

The improvement in the headline index was partly down to the broad stabilisation of output in July, following a marginal drop in June. Some firms commented that relatively firmer demand conditions had led them to leave production volumes unchanged. Total new orders rose at a fractional pace after a modest decline at the end of the second quarter. The upturn was likely driven by stronger domestic demand, as new export orders were little-changed in July. Some companies commented that the ongoing trade dispute with the US continued to weigh on export sales.

Muted order book trends led companies to reduce their headcounts for the fourth month in a row, and at the quickest pace since February. However, a lack of personnel was cited as a key reason for a further increase in unfinished work. That said, the rate of backlog accumulation remained modest.

Following a reduction in June, buying activity rose slightly at the start of the third quarter. However, manufacturers adopted a cautious approach to inventories in light of relatively soft demand conditions, with inputs of both purchased items and post-production goods falling in July.

Chinese manufacturers indicated that average input costs rose again in July. However, the rate of increase was marginal. At the same time, efforts to stimulate customer demand and boost new order intakes led firms to cut their selling prices for the first time since January.

After slipping to its lowest on record in June, business confidence regarding output for the year ahead improved to a three-month high in July. Optimism was often linked to forecasts of improving market conditions and new products. However, concerns over the outcome of ongoing trade negotiations with the US continued to weigh on overall sentiment.

Key Points

- Production stabilises amid slight uptick in new work
- Employment falls at quickest pace for five months
- Factory gate prices decline for the first time since January

Comment

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

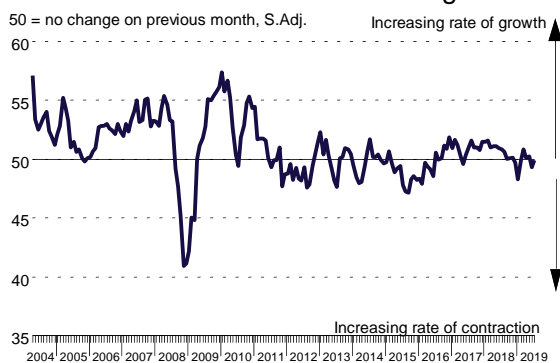
"The Caixin China General Manufacturing PMI rose to 49.9 in July, although it remained in contractionary territory.

"The subindices for new orders and output both returned to expansionary territory, and the gauge for new export orders rose slightly, though it remained in contractionary territory. This indicates that domestic demand recovered, and overseas demand was stable. The subindex for employment dipped further into negative territory, suggesting that the labor market didn't improve.

"While the subindex for stocks of purchased items fell into contractionary territory, the measure for stocks of finished goods dropped further into decline, reflecting that increased orders consumed inventories to some extent. The measure for future output jumped in July, pointing to an increase in confidence among businesses. The gauge for output charges dropped into negative territory, while that for input costs remained in positive territory despite a mild fall. This was a sign of downward pressure on the profitability of downstream companies.

"China's manufacturing economy showed signs of recovery in July. Business confidence rebounded, reflecting the strong resilience in the economy. Policies such as tax and fee reductions designed to underpin the economy had an effect. The situation may strengthen policymakers' insistence to regulate the property market and the finance industry."

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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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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>

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