

Caixin China General Manufacturing PMI™

PMI sinks to four-month low at end of second quarter

Summary

Chinese manufacturers reported the sharpest deterioration in operating conditions for four months in June, with output falling at the quickest rate since February amid a further drop in new work. Consequently, companies continued to pare back their staff numbers at a solid pace, while trimming their inventory holdings of inputs and finished goods further. Prices data indicated a renewed fall in cost burdens faced by Chinese goods producers, while output charges were left broadly unchanged after a three-month sequence of inflation.

Adjusted for seasonal factors, the *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – registered at 48.6 in June, down from 49.2 in May, to signal a further deterioration in the health of China's manufacturing sector. Furthermore, the rate of deterioration, though moderate, was the fastest seen in four months.

A faster contraction of manufacturing output weighed on the headline index in June. Furthermore, it was the quickest reduction in production for four months. Panellists widely commented that poor market conditions and a drop in new work had led them to cut output. Weaker client demand was highlighted by a second successive monthly fall in total new work placed at manufacturing firms during June, albeit marginal. Data suggested that part of the weakness stemmed from softer foreign client demand, with new export sales declining for the seventh month in a row and at a moderate pace.

As part of efforts to cut costs and raise efficiency, businesses reduced their staffing levels again in June. Employment in the sector has now fallen in each of the past 32 months. Furthermore, the rate of contraction was similar to those seen in the preceding four months and solid. Meanwhile, backlogs of work rose, with some respondents linking growth to new product developments. Though modest, it was the fastest rise in outstanding workloads for a year-and-a-half.

Fewer new orders contributed to a reduced amount of purchasing activity across China's manufacturing sector in June, though the rate of reduction was only slight. At the same time, companies maintained tighter inventory policies, with stocks of both pre-production and finished goods falling, albeit at slower rates than in the previous month.

Despite another drop in input buying, lead times for deliveries continued to lengthen in June amid reports of stock shortages at vendors. However, the rate at which supplier performance deteriorated was only slight.

After a three-month sequence of inflation, average cost burdens faced by Chinese goods producers fell in June. Some respondents mentioned that deflationary pressures stemmed from lower raw material costs. That said, the rate of reduction was marginal overall. Meanwhile, prices charged by Chinese manufacturers were broadly unchanged since the previous month.

Key Points

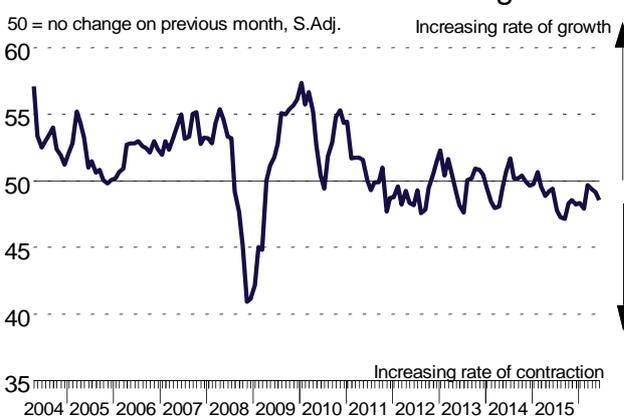
- June data signals faster contractions of output and new orders
- Further solid reduction in staff numbers
- Renewed fall in average input costs

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 for June came in at 48.6, down 0.6 points from the May reading. It was the index's third monthly decline in a row, and marked the steepest deterioration in manufacturing sector conditions since February. The index's output category recorded the sharpest decline in four months, with new orders dipping further into contraction. Overall, economic conditions in the second quarter were considerably weaker than in the first quarter, which means there has been no easing of the downward pressure on growth. Against the backdrop of a turbulent external environment, and in order to avert a sharp economic decline, the government must strengthen its proactive fiscal policy while continuing to follow prudent monetary policy."

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Sources: 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: 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 Markit. Please contact economics@markit.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.

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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for over 30 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 www.markit.com/economics.

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