Caixin China General Manufacturing PMI™

Manufacturing PMI slips to eight-month low in July

Summary

Operating conditions across China's manufacturing sector improved at the slowest pace for eight months in July, with output and new business both expanding at softer rates. Notably, new export orders fell at the steepest pace for 25 months. A further reduction in staffing levels meanwhile contributed to a sustained increase in backlogs of work. On the price front, the rate of input cost inflation weakened since June, but remained elevated, while output charges rose only modestly.

Optimism towards the year ahead remained relatively subdued amid concerns surrounding tough market conditions, strict environmental policies and the potential impact of the US-China trade war.

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 from 51.0 in June to 50.8 in July. Although still above the neutral 50.0 mark, the latest figure highlighted the slowest improvement in the health of the sector since November 2017.

Chinese manufacturers continued to increase production during July. However, the rate of expansion softened since June and was moderate overall.

At the same time, new order growth weakened for the second month running and was slower than the historical series trend. Data suggested that reduced external demand contributed to the slowdown, as exports fell for the fourth month in a row. Notably, the rate at which new export business declined was the quickest recorded for just over two years amid reports of subdued market conditions.

Employment across China's manufacturing sector continued on a downward trend in July, with some companies lowering staff due to company downsizing. That said, the rate of job shedding eased since June. Lower staff numbers and a further rise in new orders led to increased amounts of outstanding business, though the rate of accumulation slipped to the weakest for five months.

Buying activity among Chinese goods producers increased again at the start of the third quarter. However, the pace of expansion was the weakest recorded in just over a year. Stocks of inputs were meanwhile little-changed from the previous month, while inventories of finished items declined for the third month in a row.

The time taken for inputs to be delivered to manufacturing companies in China continued to lengthen in July. However, the degree to which vendor performance deteriorated was the least marked since February.

Average input costs rose solidly in July, despite the rate of inflation softening since June. Companies widely linked higher cost burdens to greater raw material prices. Meanwhile, factory gate prices increased at only a modest pace that was the slowest recorded for three months.

Companies generally anticipate output to increase over the next year. However, the level of positive sentiment held close to June's six-month low and remained weak in the context of historical data.

Key Points

- Slower increases in output and new orders
- New export sales decline at quickest rate for over two years
- Input costs rise solidly

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 slipped to 50.8 in July from June. The reading has not been this low since November 2017.

"The sub-indexes for output and new orders both fell, but remained in expansionary territory, while the employment sub-index picked up despite remaining in contractionary territory. New export orders shrunk at the fastest pace since June 2016, indicating the export market continued to deteriorate.

"The sub-indexes for output charges and input prices both dropped, but remained in expansionary territory, pointing to easing pressure on prices. The sub-index for future output edged up, reflecting that goods producers were more optimistic that production would grow over the next 12 months.

"The sub-index for stocks of finished items contracted at a steeper rate in July, while the sub-index for stocks of purchased items started expanding again — a positive sign that companies had reduced their stocks of finished products and replenished stocks of purchases. The sub-index for suppliers' delivery times rose, even though it failed to make it into expansionary territory, which might imply an improved capital turnover among manufacturers.

"In general, the survey signaled a weakening manufacturing trend as a grim export market dragged on the sector's performance. The positive drivers were the increase in stocks of purchases and easing pressure on capital turnover."

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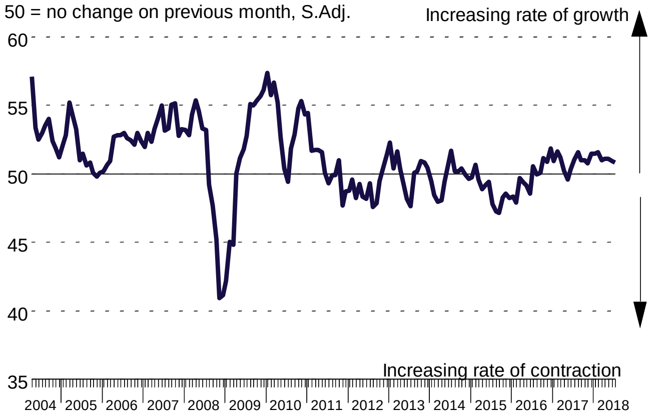

Sources: IHS Markit, Caixin.

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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