

PMI

Caixin China
General Manufacturing
PMI Press Release

2021.07



Caixin China General Manufacturing PMI™

Operating conditions improve only slightly in July

Manufacturers in China signalled a softer improvement in operating conditions at the start of the third quarter. Output expanded at the slowest rate for 16 months, while overall new work fell slightly for the first time since May 2020. The COVID-19 pandemic meanwhile continued to dampen export sales, which rose only slightly in July. Relatively subdued demand conditions resulted in broadly unchanged employment across the sector. At the same time, inflationary pressures eased, with both input costs and output charges increasing at softer rates.

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 – slipped from 51.3 in June to 50.3 in July, to point to a softer improvement in the health of the sector that was only slight. Notably, it signalled the slowest improvement for 15 months.

A key factor weighing on the headline reading was a renewed fall in total new business during July. Though only marginal, it marked the first decline in sales for 14 months. Some companies noted that higher factory gate prices had dampened customer demand. At the same time, new export orders rose only slightly as the pandemic continued to hinder sales overseas.

Concurrently, the rate of output growth softened for the third month in a row. The latest increase was the slowest seen for 16 months and only marginal. Where production had increased, it was generally linked to improved capacity and firmer market conditions.

In line with the trend for output, purchasing activity rose again in July, albeit only slightly. Notably, it was the softest increase in input buying for four months. Stocks of purchased items meanwhile declined slightly during the latest survey period. Panel members indicated that some firms increased their usage of current inventories due to rising raw material prices. Meanwhile, the delivery of goods to clients led to a further reduction in stocks of finished goods.

Supply chain delays persisted in July, with average delivery times for inputs increasing solidly. Anecdotal evidence indicated that material shortages and transport delays due to the pandemic had driven the latest increase in lead times.

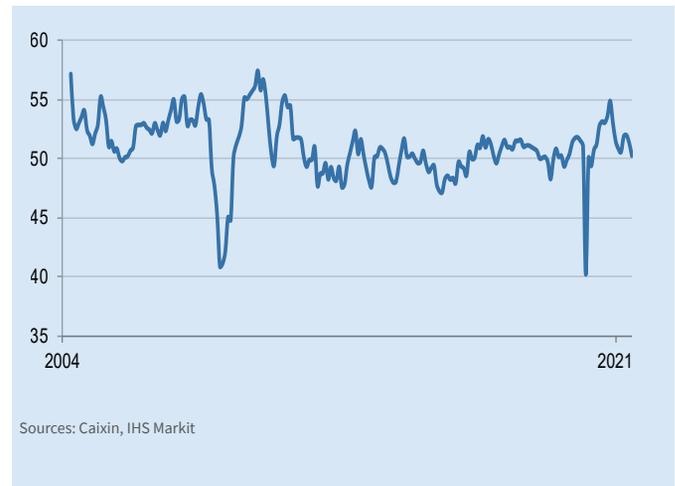
Capacity pressures eased at the start of the third quarter, with backlogs of work rising at the softest pace for five months. Employment levels meanwhile were little-changed in July, after a slight uptick in payroll numbers in June.

The latest survey data also saw inflationary pressures soften. Input prices rose at the weakest rate since November 2020, albeit still sharply overall. Higher expenses were frequently linked to increased prices for a range of raw materials and greater transport fees. The rate of output charge inflation likewise slowed in July, with selling prices rising only slightly overall.

Chinese manufacturers were generally optimistic that output would increase over the next year. However, the level of confidence slipped to a three-month low amid concerns over how long it would take to get the global pandemic under control and ongoing supply chain disruption.

China General Manufacturing PMI

sa, >50 = improvement since previous month



Key findings:

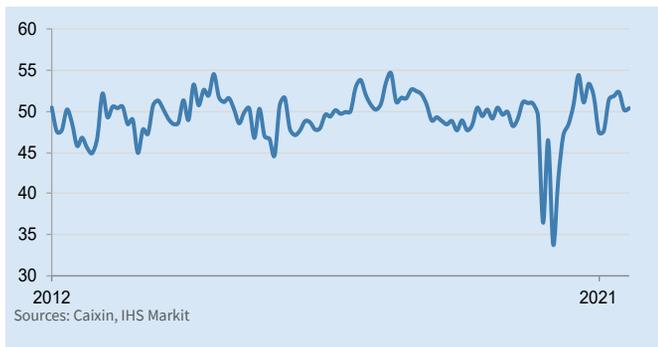
Output growth slows amid slight drop in new orders

Staffing levels are broadly unchanged

Inflationary pressures ease

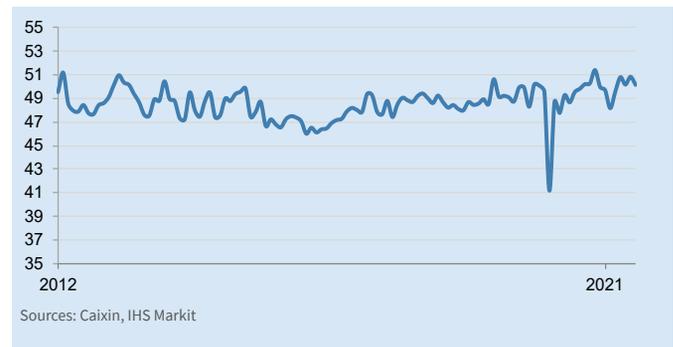
New Export Orders Index

sa, >50 = growth since previous month



Employment Index

sa, >50 = growth since previous month



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 50.3 in July, down from 51.3 the previous month. The July reading was the lowest in 15 months, though it marked the 15th consecutive month of expansion. That meant while the manufacturing industry continued to grow, the rate of expansion slowed further.

“Supply in the manufacturing sector continued to expand, while demand contracted for the first time in more than a year. External demand remained stable. The gauge for output in July was the lowest in 16 months, while the gauge for new orders was the lowest in 15 months. Surveyed manufacturing enterprises said market demand was weak. High product prices suppressed demand, especially for consumer goods and intermediate goods. The gauge for new export orders came in just above 50 in July. The epidemic situation varied in different regions overseas, which made exports remain stable as a whole.

“The employment market stayed stable. Some enterprises hired more staff to expand production capacity, while some kept a cautious stance on increasing hiring. The measure for employment was just above 50 in July, marking the fourth straight month of expansion. Outstanding workloads increased slightly.

“Inflationary pressure eased slightly. Both the gauges for input prices and output prices fell in July, with the latter dropping at a steeper pace. Still, the gauge for input prices was well above 50, as surveyed enterprises said raw material prices remained high, especially for industrial metals. Notably, the gauge for input prices remained above 55 for the eighth consecutive month in July. By comparison, the gauge for output prices was just above 50 in July, the lowest since September. As mentioned earlier, market demand was sensitive to product prices, which limited enterprises’ pricing

power.

“Logistics delivery times continued to lengthen. Impacted by the resurgence of the Covid epidemic in some regions in China and the shortage of materials including chips, the measure for suppliers’ delivery times remained in contractionary territory. Prices of raw materials remained high. Manufacturing enterprises’ quantity of purchases increased marginally, while the stock of purchases fell slightly.

“Overall, the rate of expansion in the manufacturing sector slowed in July. Market supply continued to expand, while demand began to come under pressure. The job market remained stable, as did the quantity and stock of purchases. Enterprises were cautious about increasing staff and purchasing raw materials. Inflationary pressure was partly eased, but input prices and output prices of manufacturing enterprises continued to rise, especially raw materials such as industrial metals. Entrepreneurs stayed positive about the business outlook, but the measure for future output expectations in July was lower than its long-term average and was the lowest in 15 months. China’s official second-quarter economic figures were in line with expectations, but the Caixin China manufacturing PMI in July and relevant data suggested the recovery of the economy is not yet solid. The economy is still facing huge downward pressure, and we need to ensure entrepreneurs’ confidence.”



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 12-22 July 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>

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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