Caixin China General Manufacturing PMI™

Manufacturing PMI falls to two-year low in July

Summary

July data signalled that the downturn in China's manufacturing sector intensified at the start of the third quarter. Renewed falls in both total new work and new export orders led manufacturers to cut production at the fastest rate since November 2011. Softer client demand and reduced output requirements contributed to further job shedding and lower purchasing activity, with the latter declining at the sharpest rate since January 2012. Meanwhile, deflationary pressures persisted, with both input costs and output charges declining in July and at faster rates than in the previous month.

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 – posted at 47.8 in July. This was down from 49.4 in June and below the neutral 50.0 mark for the fifth successive month. Furthermore, the latest index reading signalled the sharpest deterioration in the health of the sector since July 2013.

Following a slight improvement in June, total new business received by Chinese manufacturers fell in July. Furthermore, the rate of decline was the quickest seen since March 2014. Data signalled that both domestic and foreign demand had softened in the latest survey period, as highlighted by new export work also falling in July after a slight pick up in June.

Weaker market conditions and an associated downturn in client demand contributed to a third successive monthly contraction of manufacturing production in July. Moreover, the latest reduction in output was the sharpest seen in 44 months.

Fewer new orders underpinned a renewed contraction of purchasing activity in China's manufacturing during July. Furthermore, the rate of reduction was the sharpest seen since January 2012. Stocks of purchases also fell on the month, albeit at a modest rate, with some companies linking lower inventories to ongoing stock adjustments. Inventories of finished goods were meanwhile little-changed when compared to June.

Staff numbers at Chinese manufacturers declined for the twenty-first consecutive month in July. Despite the rate of job shedding easing since June, it was marked overall. According to anecdotal evidence, employment fell due to company down-sizing policies that were implemented in light of softer client demand. Backlogs of work meanwhile rose at a marginal pace that was identical to that recorded in June, with some panellists mentioning that reduced output had led to greater amounts of unfinished work.

Average input costs faced by Chinese manufacturing companies declined again in July. Furthermore, the rate of reduction accelerated to the sharpest seen since April. Reports from panellists suggested that lower raw material costs had reduced overall cost burdens. Average selling prices also fell in July, and at the sharpest rate since January, with a number of firms cutting their charges due to increased competition for new work.

Key Points

- Output contracts at fastest pace since November 2011...
- ...as total new work and new export business both decline solidly
- Purchasing activity falls at sharpest rate in three-and-a-half years

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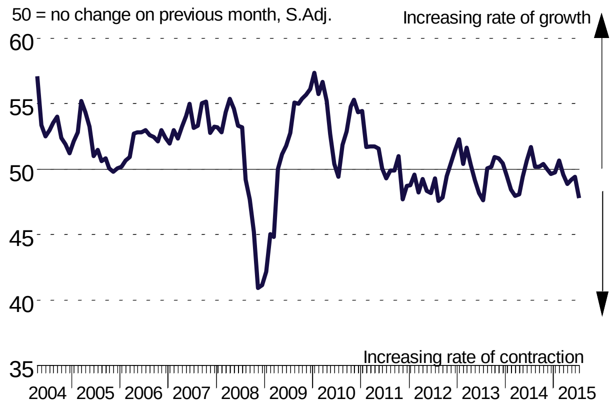

Sources: Markit, Caixin.

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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 420 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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About PMI:

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