

PMI

Caixin China
General Manufacturing
PMI Press Release

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Caixin China General Manufacturing PMI™

Manufacturing output growth improves to 11-month high

Manufacturing business conditions in China improved for the first time in three months during May, according to latest PMI data. Production expanded at the quickest rate in nearly a year, supported by a fresh rise in overall new business amid reports of firmer client demand. This in turn contributed to increases in purchasing activity and stocks of inputs. At the same time, further improvements in supplier capacity helped to shorten average delivery times and ease cost pressures. Notably, input costs fell solidly in May, with firms often passing on savings to clients in the form of lower selling prices.

However, business confidence around the 12-month outlook for output slipped to a seven-month low in May amid concerns over lingering global economic uncertainty. As a result, firms maintained a cautious approach to staff hiring, with employment falling again in May.

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 – picked up from 49.5 in April to 50.9 in May. Crucially, the latest reading was above the neutral 50.0 level to signal the first improvement in the health of the manufacturing sector since February. Though mild, the pace of improvement was stronger than the post-pandemic average.

Helping to push the headline index higher was a strong and accelerated rise in production during May. Notably, the rate of growth picked up from April's three-month low and was the best seen since June 2022.

Greater intakes of new business was central to the latest improvement in output. Though modest, the rate of new order growth was the second-quickest seen over the past two years, with a number of firms noting firmer demand conditions and new customer wins. New export business increased at a slightly faster pace.

Higher new orders prompted firms to raise their buying activity again midway through the second quarter, though the rate of growth slipped to a four-month low. Nevertheless, this helped to drive a renewed increased in stocks of purchases. Stocks of finished goods meanwhile fell fractionally on the month.

Average delivery times for inputs shortened again in May, with firms often stating that this was due to increased capacity at suppliers and improved material availability.

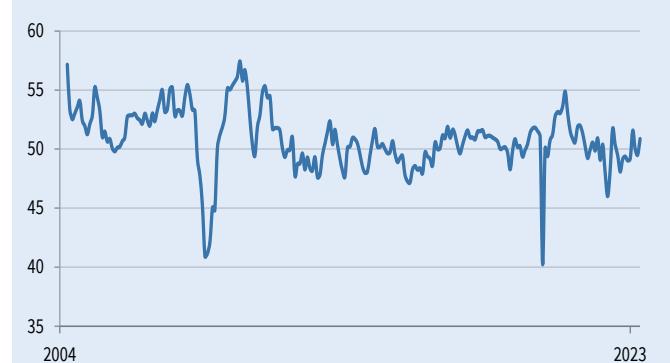
The improvement in supply chains led to a further easing of cost pressures in May. In fact, average input costs fell solidly for the second month in a row. Manufacturers noted that prices had fallen for a variety of inputs, notably metals, food and fuel. However, intense market competition often led firms to share cost savings with clients, with companies cutting their selling prices at a solid rate.

Although firms registered improvements in output and demand in May, business confidence regarding the 12-month outlook for production slipped to a seven-month low. While many firms projected that further improvements in new business, new product development and company expansions would support growth, others expressed concerns over lingering economy uncertainty, particularly overseas.

As a result, firms maintained a cautious approach to staff hiring, with employment across the sector falling in May and at the quickest rate since February 2020. Despite lower staff numbers, capacity pressures appeared to ease, with backlogs falling slightly for the first time in five months. Some firms noted that greater production levels had enabled them to process outstanding orders.

China General Manufacturing PMI

sa,>50 = improvement since previous month



Sources: Caixin, S&P Global

Key findings:

Stronger increase in output as firms see fresh upturn in new business

Input costs fall solidly

Employment continues to decline as business confidence softens

New Export Orders Index

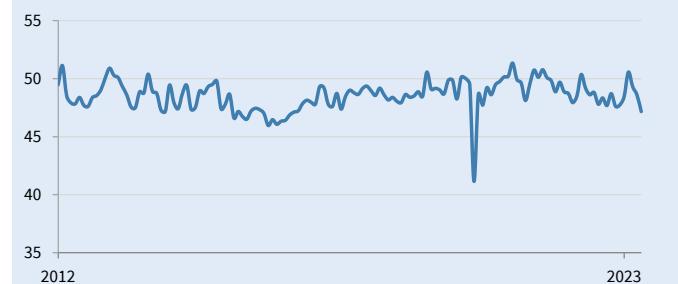
sa, >50 = growth since previous month



Sources: Caixin, S&P Global

Employment Index

sa, >50 = growth since previous month



Sources: Caixin, S&P Global

Commenting on the China General Manufacturing PMI™ data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

"The Caixin China General Manufacturing PMI in May grew 1.4 points from the previous month to 50.9, returning to expansion as both supply and demand picked up.

"Both manufacturing supply and demand improved. Manufacturing output grew significantly, with the related subindex logging its highest since June 2022. The subindex for total new orders recorded its second-highest reading since May 2021 as surveyed businesses reported more clients and demand, even though demand remained a bit weaker than supply. External demand remained stable, with the gauge for new export orders rising marginally within expansionary territory. Exports of intermediate goods significantly outperformed shipments of consumer and investment products.

"Manufacturing employment continued to deteriorate. In a stark contrast to the improvements in supply and demand, the job market contracted at a faster pace in May, with the employment subindex plumbing the lowest level since February 2020. Manufacturers were reluctant to hire workers as they sought to trim staffing levels and increase efficiency. The falling number of workers in the sector didn't have much of an effect on backlogs of work, which remained stable overall in May.

"Prices continued to plunge. As deflationary pressure has grown, the gauges for input and output prices remained well below 50 for the second straight month, logging their second-lowest readings since early 2016. Input prices were dragged down by falling food, fuel and industrial metals costs, while prices charged to customers were constrained by heated market competition.

"Supplier delivery times got even shorter in May. The related subindex ticked up slightly inside expansionary territory as suppliers maintained sufficient stocks and delivery times improved. Meanwhile, manufacturers' quantity of purchases and stocks of raw materials both grew marginally.

"Manufacturers remained optimistic, but the reading for expectations for future output worsened in May from the previous six months, though it stayed above 50. In fact, the reading was 2.6 points below the long-term average, as manufacturers showed concern about economic uncertainty.

"In a nutshell, manufacturing activity improved in May. Both supply and demand expanded, but employment sank to a three-year low. Businesses stepped up purchasing, inventories of raw materials grew marginally, logistics picked up, prices continued to slump, and manufacturers' optimism wavered.

"In general, April's official economic data fell short of expectations, raising doubts about the sustainability of the post-Covid recovery. In May, China's manufacturing sector experienced a patchy recovery, as shown in the Caixin PMI: market supply and demand improved significantly, and businesses purchased more raw materials and stepped up replenishing their inventories. In contrast, the job market shrank, prices plunged, and manufacturers grew less optimistic about the future. The divergence points to the fact that current economic growth lacks internal drive and that market entities lack sufficient confidence, highlighting the importance of expanding and restoring demand. Currently, stabilizing employment, increasing income and bolstering expectations through proactive fiscal policy should be prioritized given a dire job market and mounting deflationary pressure."



Survey methodology

The Caixin China General Manufacturing PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 650 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 May 2023.

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

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