China

Manufacturing downturn gathers further momentum in June

- PMI falls for third month running in June to signal ongoing malaise
- Output and orders fall at increased rates
- Employment decline remains severe as firms cut capacity
- Price pressures fall back after recent pick-up

A third consecutive monthly fall in the PMI suggests that China’s manufacturing economy is undergoing a renewed downturn after the rate of contraction had eased earlier in the year.

Both domestic and export demand fell in June, prompting an ongoing desire to cut operating capacity. Employment fell sharply once again, raising the prospect of a further downturn in consumer sentiment.

The steep downturn in employment alongside the wider manufacturing downturn also raises the prospect of further intervention by the authorities to stimulate growth.

Manufacturing hit by weaker exports

The Caixin China General Manufacturing PMI™, compiled by Markit from a representative sample of manufacturing firms across China, fell for a third month running in June, down to 48.6 from 49.2 in May and its lowest since February.

Factory output and new orders both fell at increased rates, suffering the largest declines since February. While the overall drop in new orders remained only modest, new export orders fell further.

The survey has now signalled 16 months of continual manufacturing decline. However, although steepening in June, the rate of deterioration indicated by the PMI remains less severe than seen over the second half of 2015 and the opening months of 2016.

Production fell across the board, dropping among producers of consumer, intermediate and investment goods such as plant and machinery, reflecting weaker consumer and corporate demand in both domestic and export markets.

Sources: Markit, Caixin.
Manufacturers continued to cut headcounts aggressively, seeking to reduce excess capacity and raise productivity. Although the rate of job losses eased marginally in June, the second quarter has seen the steepest decline in factory employment since the first quarter of 2009.

Price pressures meanwhile fell, with input prices dropping for the first time since February and firms' selling prices almost stagnating, contrasting with rises seen over the prior three months.

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