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Factory activity grows at slower pace, poll shows

Caixin/Markit PMI reading for July comes in well below analysts' forecasts

Reuters

China's factory activity expanded at a slower pace in July as growth momentum in output, new orders and employment softened, a private-sector poll showed yesterday.

The Caixin/Markit manufacturing purchasing managers' index (PMI) eased to 50.4 in July from 51.7 in the previous month. The reading was well below analysts' expectations for a slight dip to 51.5.

The 50-point index mark separates growth from contraction on a monthly basis.

China's major manufacturing hubs, including the commercial centre of Shanghai, saw a solid rebound in June from widespread coronavirus lockdowns in spring, but the recovery has started to fade amid fresh virus flare-ups and weakening domestic and global demand, as well as a prolonged slump in the property market.

The findings were slightly better than the government's official PMI on Sunday that showed factory activity unexpectedly contracted in July. The Caixin survey is believed to focus more on smaller, export-oriented companies.

A subindex for output signalled a second monthly rise, but the gain was noticeably slower than in June.

Growth in new orders, domestic and export, also softened due to muted demand and the lingering impact of Covid-19 on client spending.

Due to the recent virus flare-ups and the lack of stock and staff at suppliers, the time taken for purchased inputs to be delivered to manufacturers increased in July.

Meanwhile, an index for employment at manufacturers fell for the fourth consecutive month and dived to the lowest point in 27 months, reflecting continued weakness in the labour market. Companies attributed the staff shedding to cost cuts, subdued sales and the non-replacement of voluntary leavers.

"The recovery in supply and demand failed to spill over into the labour market for manufacturing, which continued to shrink," said Wang Zhe, senior economist at Caixin Insight Group.

"Companies, strongly inclined to lower costs in the face of sluggish demand, were cautious about expanding their staff."

In one bright note, companies' input costs rose only slightly after relentless price increases that squeezed profit margins. However, they had to cut selling prices for the third consecutive month due to soft demand.

China's economy slowed sharply in the second quarter, highlighting the toll on activity from coronavirus lockdowns.

Policymakers had reaffirmed their zero-Covid stance and were prepared to miss their gross domestic product growth target of "around 5.5 per cent" for this year, state media reported after the Politburo meeting last week.

Authorities will instead focus on achieving the best results this year, a contrast to previous calls to meet its 2022 growth target.

Stressing that the third quarter would be a crucial period to get the economy back on track, Wang said he expected no massive stimulus measures.