

China Economy

Growth remained weak and may slowly rise ahead

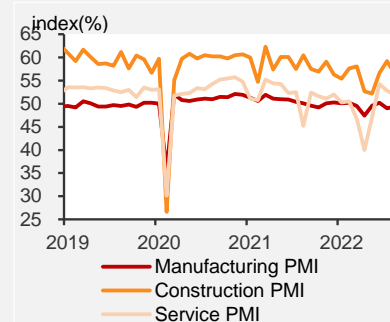
China's PMI remained weak in August as housing market continued to plunge and Covid-19 virus cases rebounded in some regions. By sector, property, construction materials, chemical products and business service saw noticeable contraction, while railway transport service, hotel, catering, telecom service and internet service remained in expansion thanks to seasonal increase of demand during the summer holiday. We expect China's economy may mildly rise from September with a slow resumption in 4Q22-2H23. Housing sales may slowly improve especially in tier one and tier two cities as China will maintain easing liquidity and credit policy with possible further mild cut in loan prime rates in 4Q22. Household consumption is expected to mildly rebound as employment, income and confidence slowly improve. We maintain our GDP forecast for 2022 at 3.5% and lower the forecast for 2023 from 6.6% to 6%.

- **PMI remained weak as housing market continued to plunge and Covid-19 virus cases rebounded in some regions.** PMI in manufacturing rose from 49% in July to 49.4% in August, thanks to strong exports and slow recovery in consumption of goods. But the index remained below 50%, indicating total factory activities remained weak. Meanwhile, PMI in construction sharply decreased from 59.2% to 56.5% as property development investment further declined and the shrinkage of land income restrained local governments' capacity to further expand infrastructure investment. PMI in service also declined from 52.8% in July to 51.9% in August, as the resurgence of Covid-19 virus hurt population mobility and service business. By sector, food and beverage rose to above 55% as it was close to the boom season. Railway transport, hotel, catering, telecom service and internet were also in the expansionary range as related demand seasonally increased in the summer holiday. But construction materials, chemical products, textile, property, and leasing & business service were very weak as property market and small business remained in stressed condition.
- **Demand improved in manufacturing and construction, yet declined in service sector.** New order index in manufacturing and construction respectively rose from 48.5% and 51.1% in July to 49.2% and 53.4% in August. But that in service sector declined from 49.5% to 49.2%, as service business is more sensitive to the rebound of Covid-19 virus cases. Business expectation mildly improved in manufacturing and construction but deteriorated in the service sector.
- **Material cost & ex-factory price saw less declines.** Material cost index in manufacturing, construction and service respectively rose from 40.4%, 45% and 49.2% in July to 44.3%, 53.4% and 49.4% in August. Ex-factory price index in the above three sectors climbed from 40.1%, 50.2% and 46.9% in July to 44.5%, 51.4% and 46.9% in August.
- **Unemployment pressure remained high as employment index was still below 50%.** Employment indexes in manufacturing, construction and service reached 48.9%, 47.7% and 46.7% in August, slightly up from 48.6%, 47.7% and 46.6% in July.
- **China's economy is in a slow resumption cycle in 2H22-1H23.** China's economy slowed in July and August due to the confidence shock in the

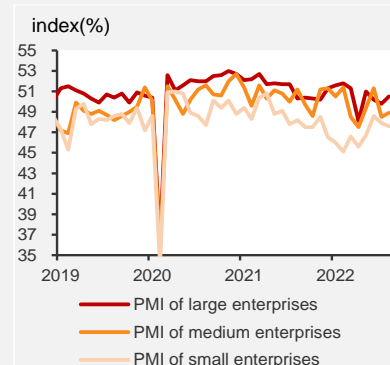
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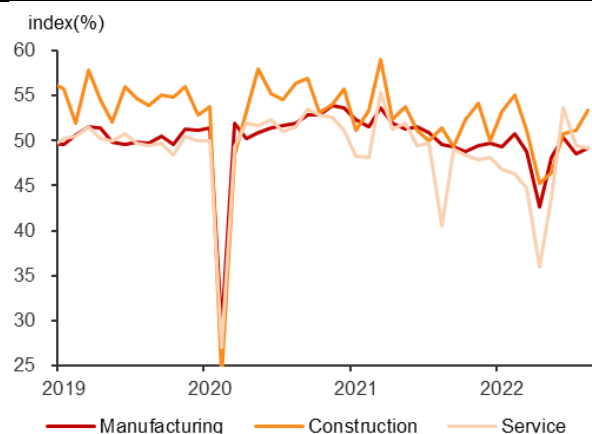


Source: NBS, CMBIGM

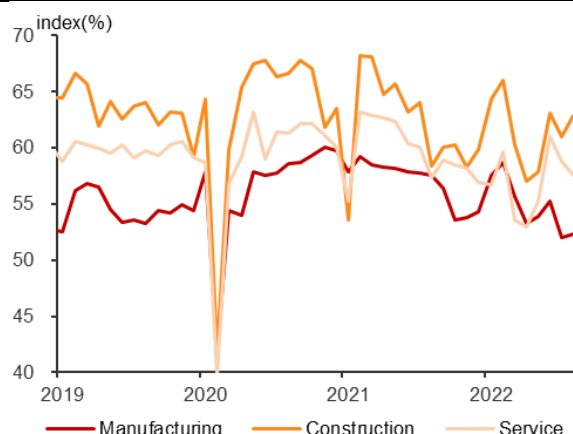


Source: NBS, CMBIGM

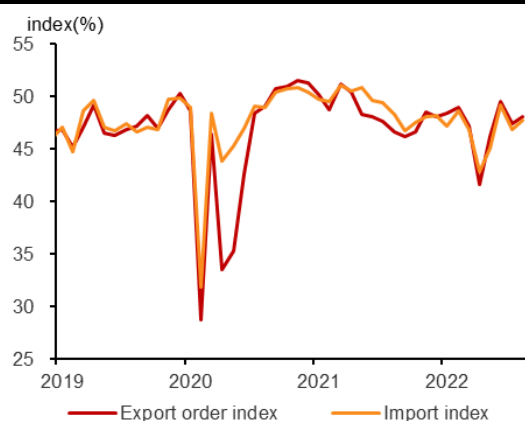
housing market and resurgence of Covid-19 cases in some regions. The growth may mildly pick up from September with a slow resumption in 4Q22-1H23. China will maintain easing liquidity and credit policy to stabilize housing market. If housing sales remain weak in September, it is likely to see further mild cut of loan prime rates in 4Q22. We expect housing sales may slowly improve in future especially in tier one and tier two cities. Household consumption may mildly rebound as employment, income and confidence slowly improve. We maintain our GDP forecast for 2022 at 3.5% and lower the forecast for 2023 from 6.6% to 6%.

Figure 1: New Order Index

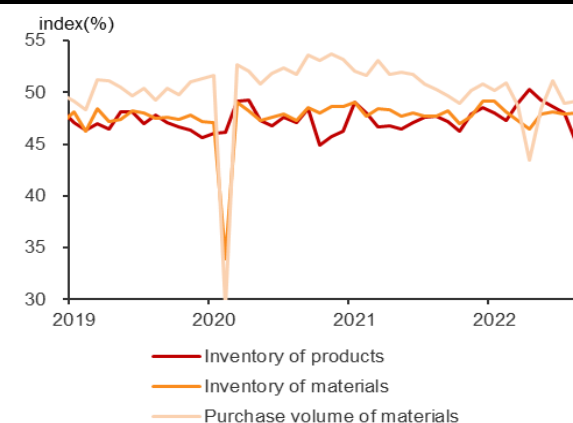
Source: NBS, CMBIGM

Figure 2: Business Expectation Index

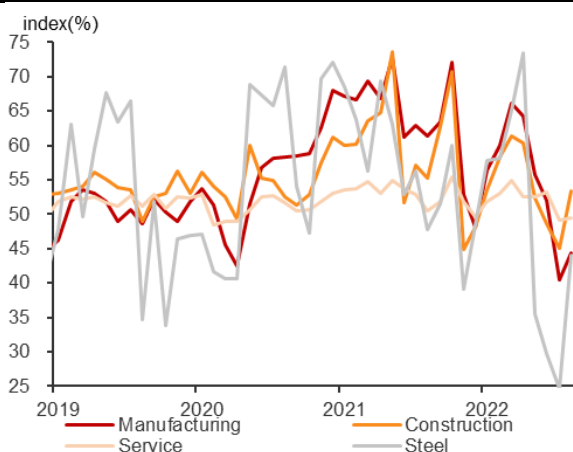
Source: NBS, CMBIGM

Figure 3: Export Order and Import Index

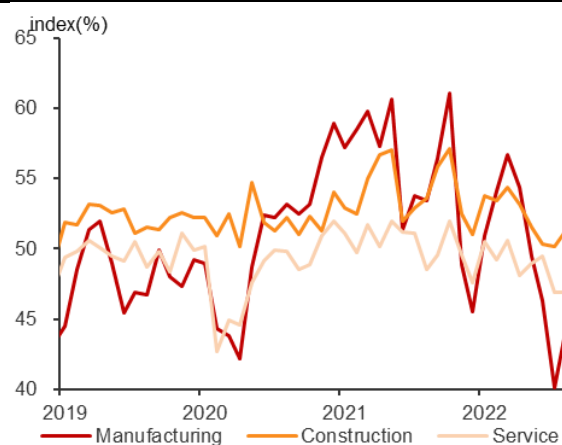
Source: NBS, CMBIGM

Figure 4: Inventory & Material Purchase Index

Source: NBS, CMBIGM

Figure 5: Material Cost Index

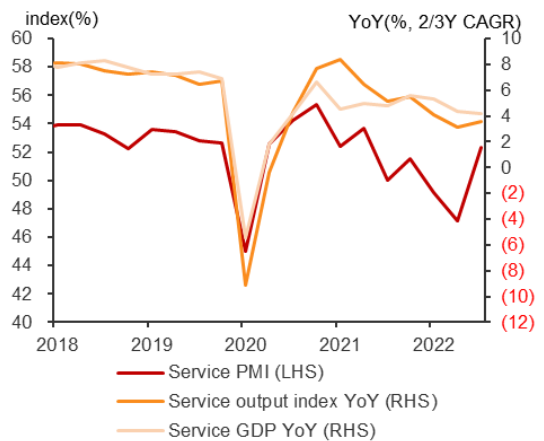
Source: NBS, CMBIGM

Figure 6: Ex-factory Price Index

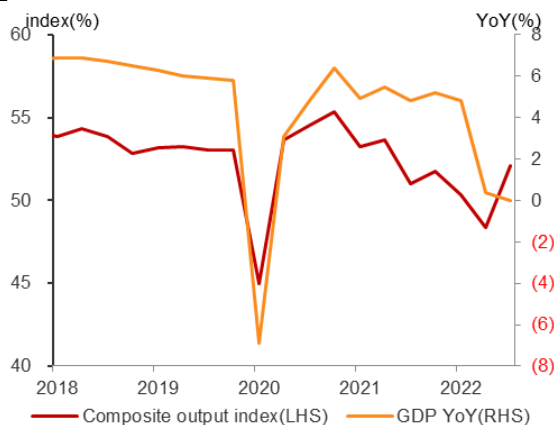
Source: NBS, CMBIGM

Figure 7: Manufacturing Output Index

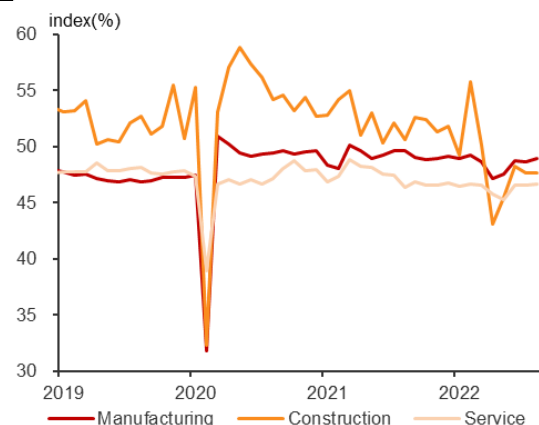
Source: NBS, CMBGM

Figure 8: Service Output Index

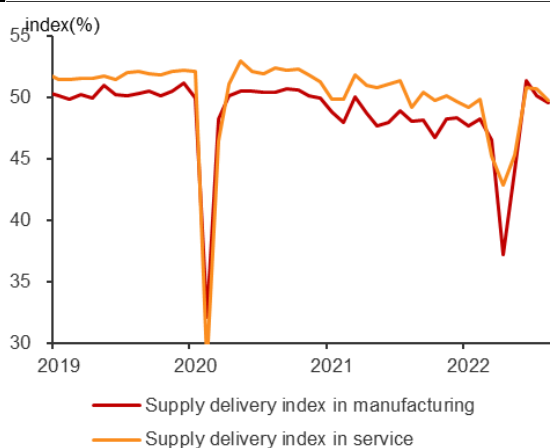
Source: NBS, CMBGM

Figure 9: Composite Output Index

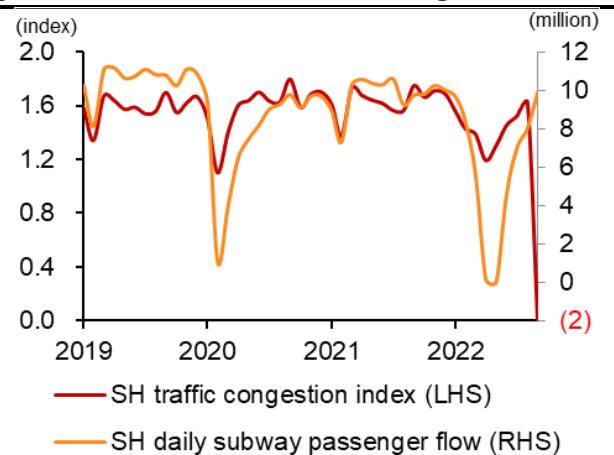
Source: NBS, CMBGM

Figure 10: Employment Index

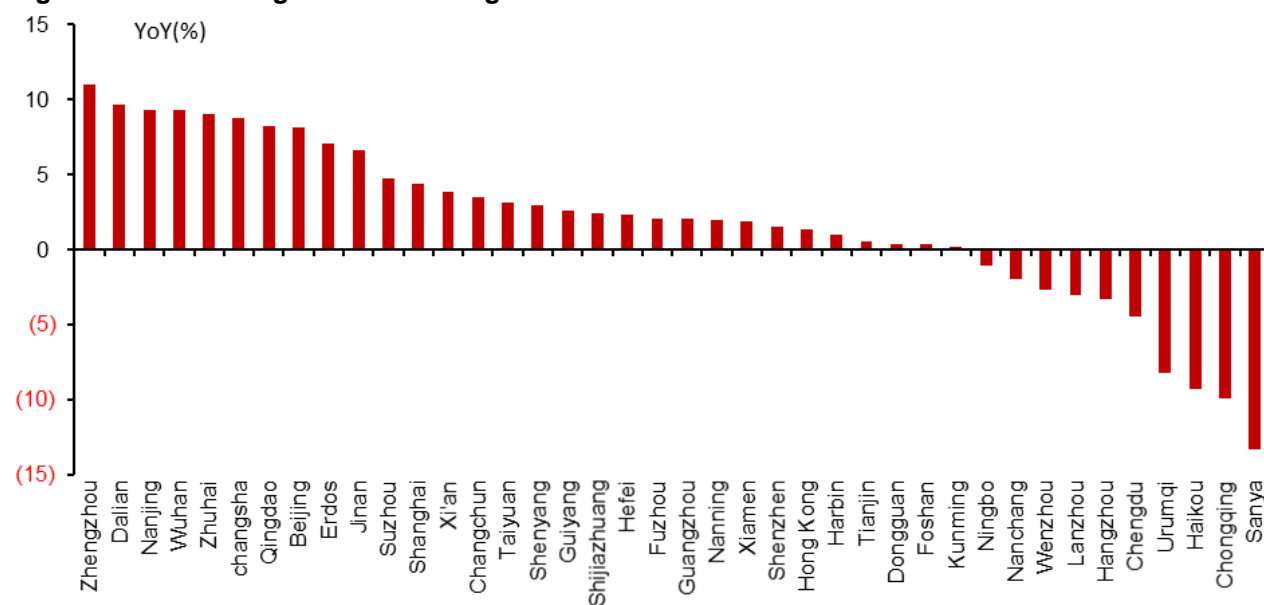
Source: NBS, CMBGM

Figure 11: Supply Delivery Index

Source: NBS, CMBGM

Figure 12: Traffic Flow Index in Shanghai

Source: Wind, CMBGM

Figure 13: YoY Change of Traffic Congestion Index

Source: Wind, CMBIGM

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