

# China Economy

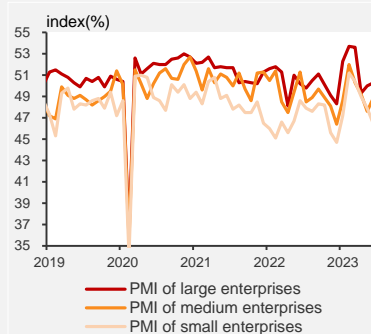
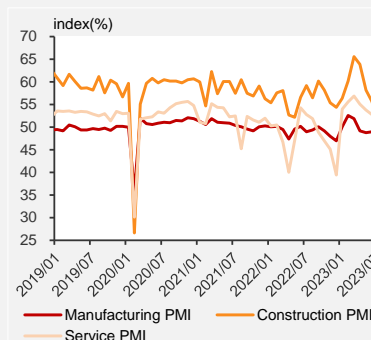
## Economy slightly improved with further policy easing ahead

China's manufacturing PMI marginally improved to 49.3% in July, although still staying in contractionary territory for four straight months. Production came in as the only sub-index in expansion while new order index, export index and import index remained below 50. Non-manufacturing sector continued to recover yet with a slowdown in recovery pace as construction and service PMIs respectively dropped to 51.2% and 51.5%. Based on recent signals, Chinese policymakers have become more proactive in boosting growth with further policy support in future. We expect additional loosening of property policy and credit supply in 2H23. China's economy may gradually rebound in the next several quarters. We maintain our forecast on China's GDP growth at 5.1% in 2023 and 4.8% in 2024.

- **Manufacturing activity marginally improved albeit still remained in contraction.** China's PMI in manufacturing slightly improved in July to 49.3% from 49% in June, while still remaining in the contraction territory. New order index in manufacturing also slightly improved to 49.5% in July from 48.6% in June. Breaking down by sector, indexes in automobile, railway & other transport equipment, and electrical equipment remained in the expansionary range. Export and import indexes declined in July to 46.3% and 46.8% from 46.4% and 47% in June, showing faltering demand for products both domestically and globally.
- **Non-manufacturing activity remained in expansion but fell below expectation.** PMIs in construction and service declined from 55.7% and 52.8% in June to 51.2% and 51.5% in July, respectively. China's consumer spending further softened after a robust rebound in 1Q23, while property sector remained under stress. New order index in construction sector drastically declined to 46.3% in July from 48.7% in June, while that in service sector dropped to 48.4% in July from 49.6% in June. By sector, indexes in air transport, postal services, telecom service, TV & broadcast, financial and insurance services remained above 60%.
- **Deflation pressure eased as product and raw material inventory improved.** Product and raw material inventory indexes improved from 46.3%/48.2% in July from 46.1%/47.4% in June, respectively, as businesses slowed down on the inventory de-stocking and started to replenish the raw materials. The recovery of inventory helped the ex-factory price index in manufacturing improved to 48.6% in July from 43.9% in June, while that in construction improved to 52% in July from 51.6% in June and service price index increased to 49.3% from 47.2%. Looking forward, we expect CPI and PPI to mildly rebound in 2H23-2024.
- **Youth unemployment surged to record high as private businesses were reluctant to expand.** Employment index in manufacturing dropped to 48.1% in July from 48.2% in June. Unemployment rate among youth and fresh graduates jumped to 21.3% in June from 20.8% in May, and this trend is expected to reach its peak in July as more young job seekers are set to enter the labor market upon graduation.
- **Stimulus policy is expected to carry out as the economy may mildly improve in 2H23.** The deterioration of economic activity and market confidence in 2Q23 has made policymakers to introduce a broad spectrum of

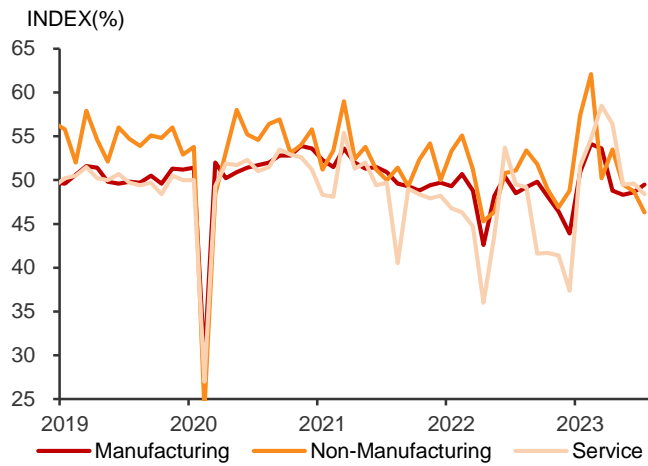
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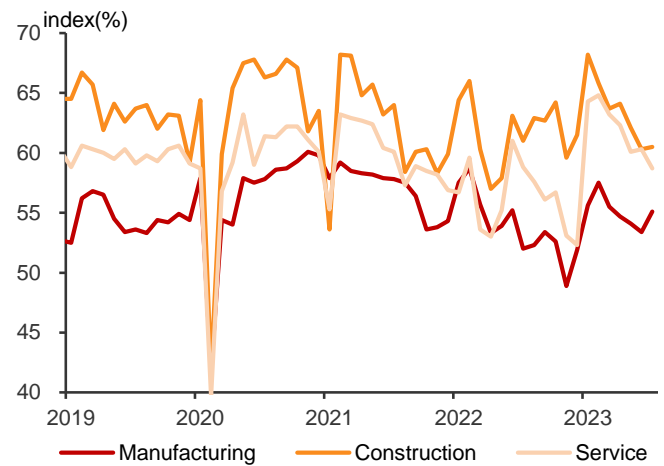
stimulus policies including further loosening of credit supply and property policy. Government pledged to activate capital market, expand consumption of durables and services and boost private business confidence. Ministry of Housing and tier-1 cities government have signaled a new round of property easing and stimulus to redevelop old districts of large cities. China's economy may mildly improve in 2H23. We maintain our forecast on China's GDP growth at 5.1% in 2023 and 4.8% in 2024.

**Figure 1: New Order Index**



Source: WIND, CMBIGM

**Figure 2: Business Sentiment Index**



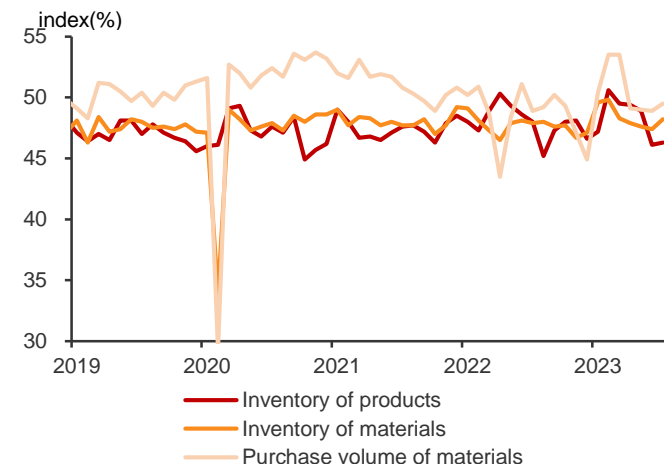
Source: WIND, CMBIGM

**Figure 3: Export Order Index and Import Index**



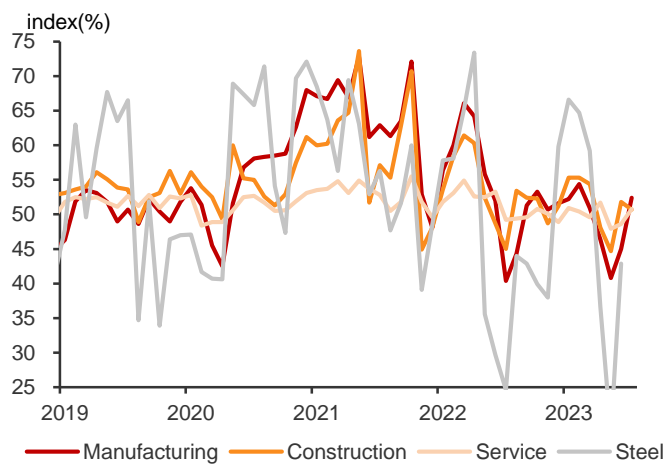
Source: WIND, CMBIGM

**Figure 4: Inventory Index**



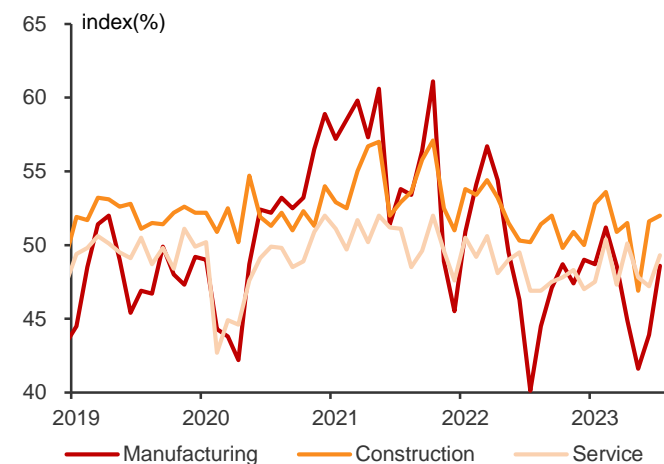
Source: WIND, CMBIGM

**Figure 5: Material Purchase Price Index**



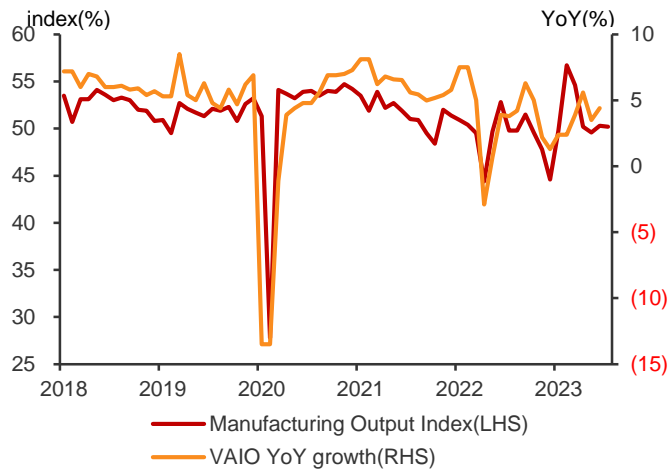
Source: WIND, CMBIGM

**Figure 6: Ex-factory Price Index**



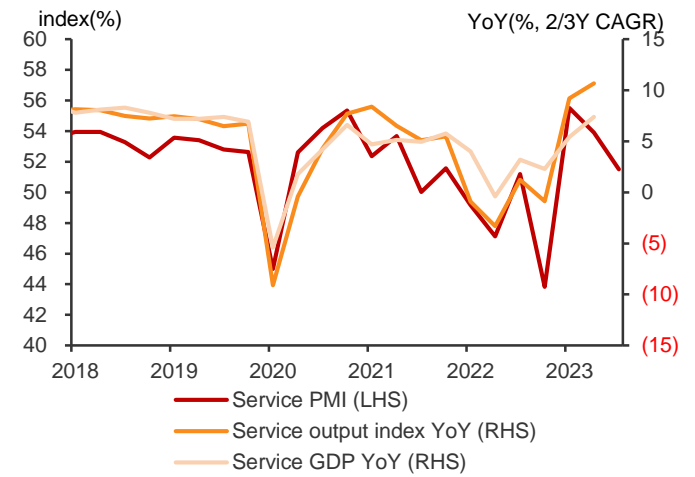
Source: WIND, CMBIGM

**Figure 7: Manufacturing Output Index**



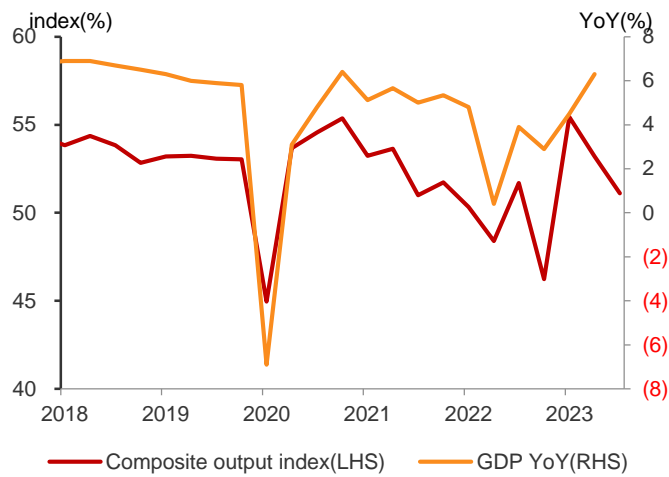
Source: WIND, CMBIGM

**Figure 8: Service PMI & Output Index**



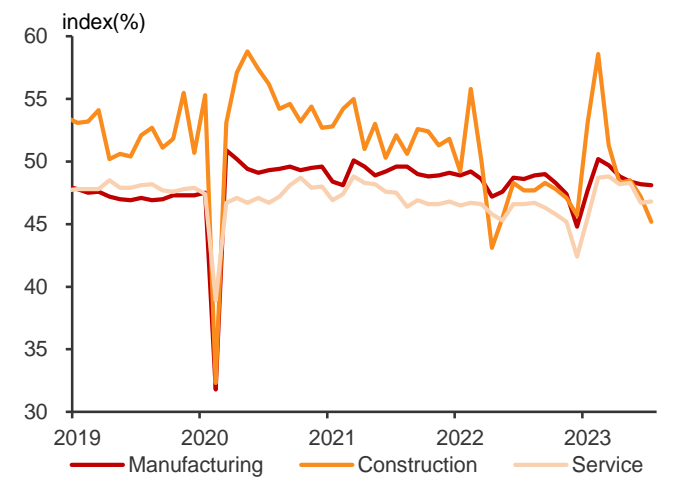
Source: WIND, CMBIGM

**Figure 9: Composite Output Index**



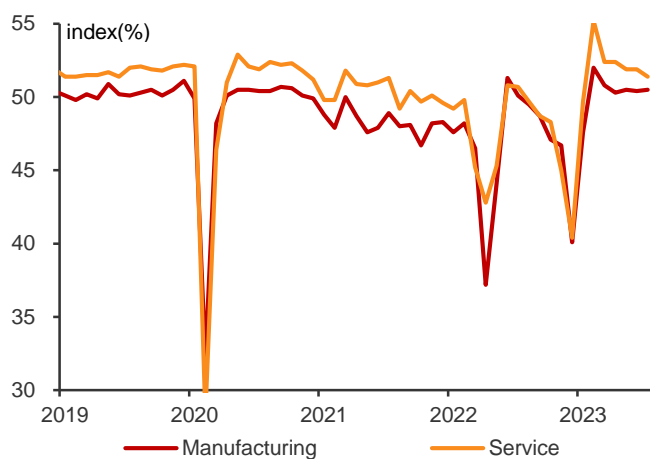
Source: WIND, CMBIGM

**Figure 10: Employment Index**



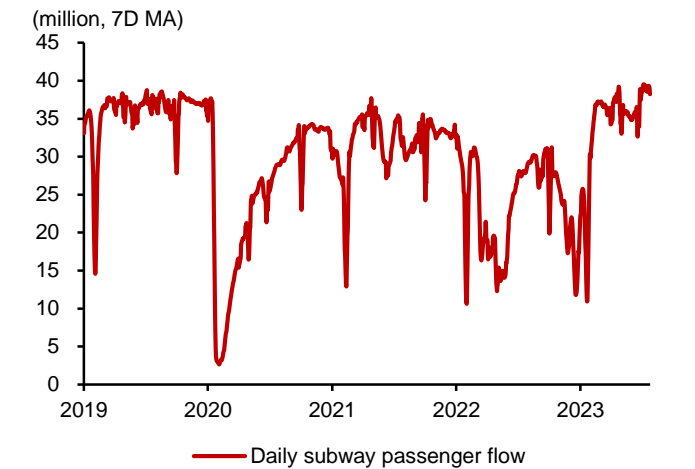
Source: WIND, CMBIGM

**Figure 11: Supply Delivery Index**



Source: WIND, CMBIGM

**Figure 12: Subway Passenger Flow in Tier-1 Cities**



Source: WIND, CMBIGM

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