

# China Economy

## Weak PMI supports strong policy easing

China's economy has remained weak as PMI continued to contract in September. Manufacturing production recovered thanks to stable export growth and seasonal improvement after the hot summer. But demand continued to deteriorate in both manufacturing and service. Manufacturers were still reluctant to expand inventory amid demand weakness as material purchase remained in contraction. Deflation persisted as ex-factory price index continued to contract. The weak PMI supports China's recent policy shift towards strong loosening with abrupt RRR and interest rate cuts and property stimulus. The policy shift has boosted speculation sentiment with a sharp rally in Chinese stocks and RMB exchange rates. To sustainably revive and reflate the economy, additional policies are needed including large-scale fiscal transfer to households, effective excess capacity reduction and market-oriented reforms to restore the animal spirit.

- Manufacturing continued to contract with less magnitude.** China's manufacturing sector continued to contract with less magnitude, in line with the trend of global manufacturing activities. Manufacturing PMI climbed from 49.1% in Aug to 49.8% in Sep. Production index rebounded to above 50%, yet demand remained weak as new order index was still below 50%. Foreign trade activity further contracted as new export order index and import index respectively declined from 48.7% and 46.8% in Aug to 47.5% and 46.1% in Sep. Product inventory, material inventory and material purchase indexes remained in contraction as manufacturers tried to keep inventory low due to demand weakness. Material and ex-factory prices continued to decline as deflation lasted longer than expected in manufacturing. Employment also contracted due to demand weakness and manufacturing upgrade towards high labour productivity. Breaking down by sector, medicine, auto, electrical equipment, and computer, telecom & electronic equipment remained in expansion while energy and steel continued to contract.
- Service started to contract for first time this year.** China's Service PMI declined from 50.2% in Aug to 49.9% in Sep. Consumer demand deteriorated in most sectors as new order index dropped noticeably from 46.8% in Aug to 45% in Sep. Deflation pressure increased in service as the input cost index and ex-factory price index respectively declined from 48.8% and 47.1% in Aug to 47.9% and 45.7% in Sep. Employment in service remained weak as the index further contracted. Breaking down by sector, activities in postal service, telecom, broadcasting & TV service, internet, software & information tech service and banking service were in expansion; while railway transport, and culture, sports & entertainment activities contracted.
- Policy is shifting towards strong loosening.** China's macro policies are shifting towards strong loosening as the policymakers have announced abrupt RRR and interest rate cuts and additional property stimulus measures recently. The trigger of the policy shift may be the open debate in China about possible Japanification of the economy amid the prolonged property slump, persisted deflation and continued consumption weakness. Some investors bet additional fiscal stimulus may come after the credit loosening and property stimulus policies. The policy shift has boosted speculation sentiment with a sharp rally in Chinese stocks and RMB exchange rates. To revive and reflate the economy, additional policies are needed including large-scale fiscal transfer to households, effective excess capacity reduction and market-oriented reforms to restore animal spirit in the economy.

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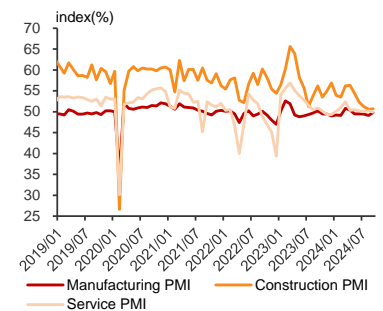
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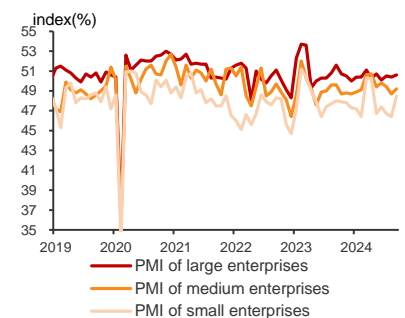
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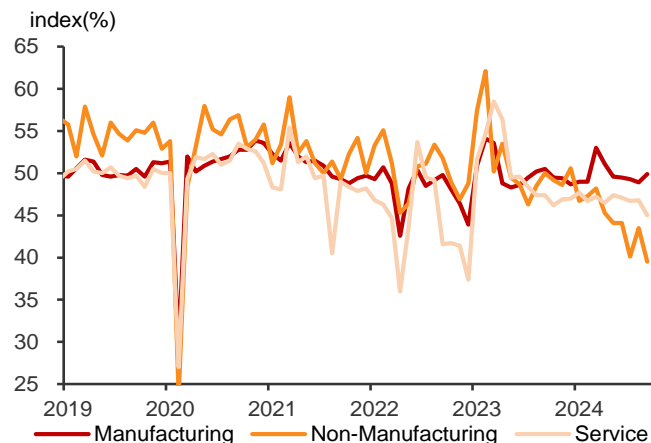


Source: NBS, CMBIGM



Source: NBS, CMBIGM

**Figure 1: New Order Index**



Source: Wind, CMBIGM

**Figure 2 : Business Sentiment Index**



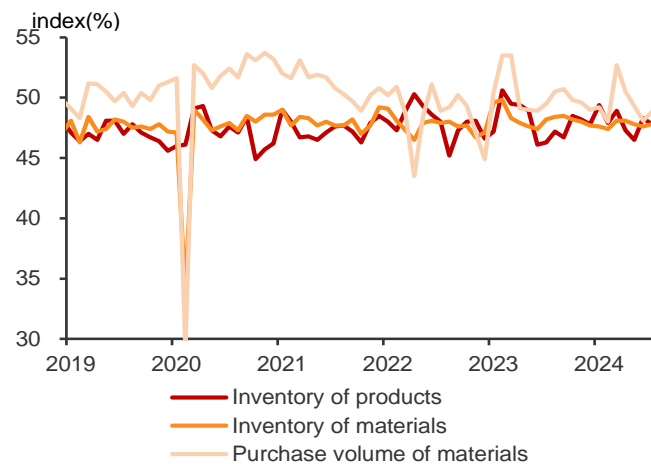
Source: Wind, CMBIGM

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



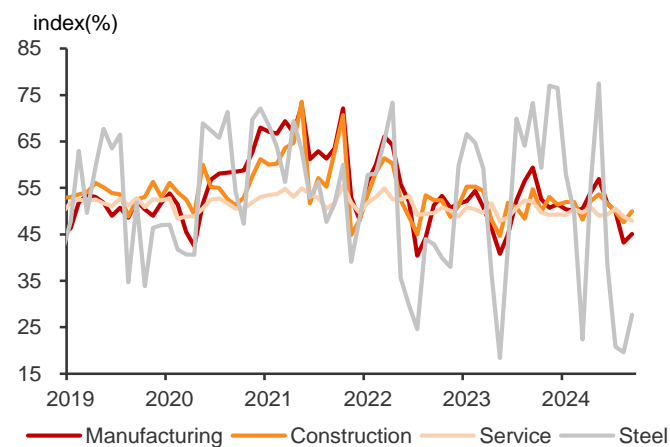
Source: Wind, CMBIGM

**Figure 4: Inventory Index**



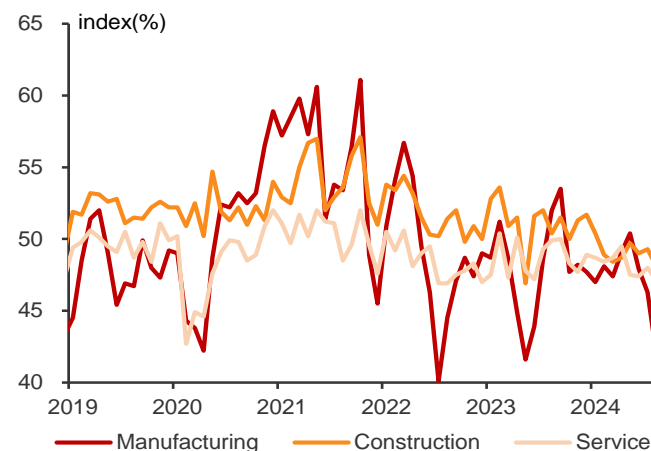
Source: Wind, CMBIGM

**Figure 5: Material Purchase Price Index**



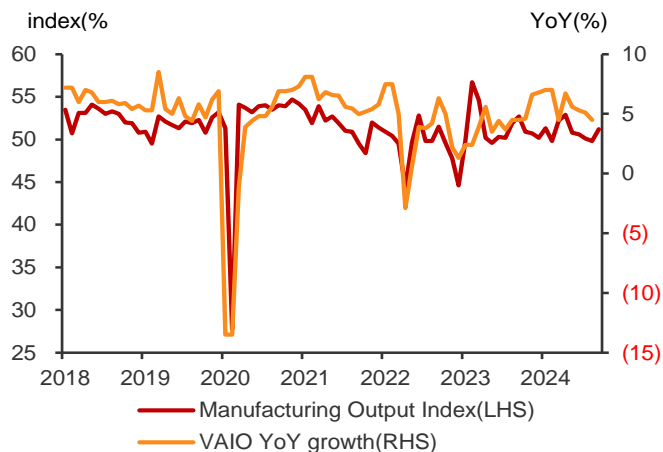
Source: Wind, CMBIGM

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



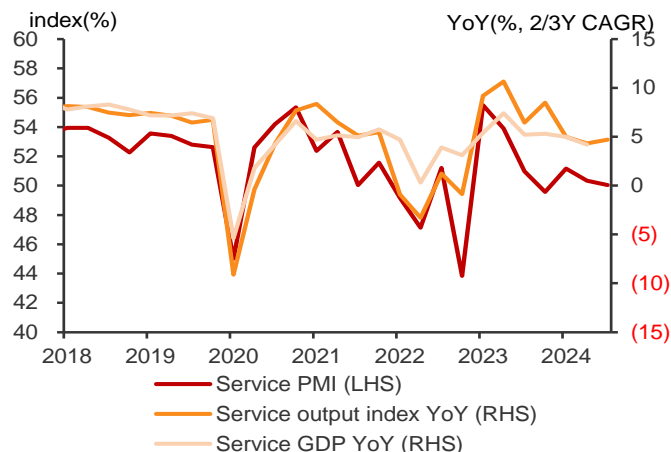
Source: Wind, CMBIGM

**Figure 7: Manufacturing output**



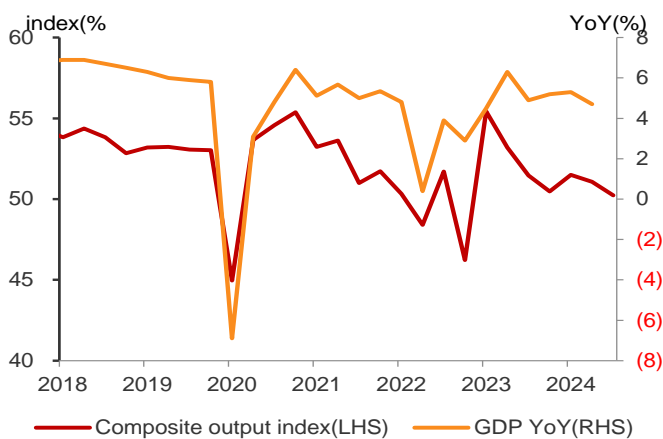
Source: Wind, CMBIGM

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



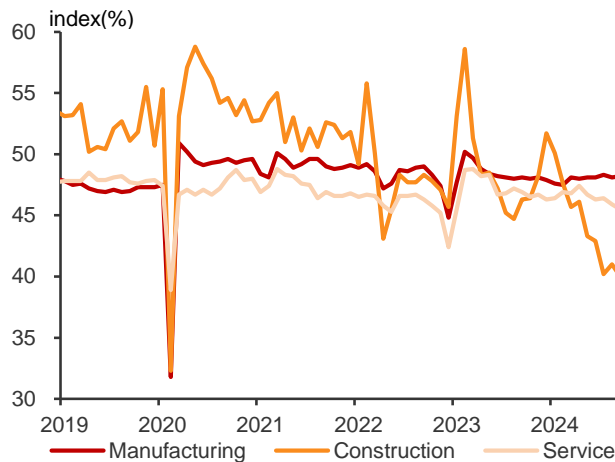
Source: Wind, CMBIGM

**Figure 9: Composite Output Index**



Source: Wind, CMBIGM

**Figure 10: Employment Index**



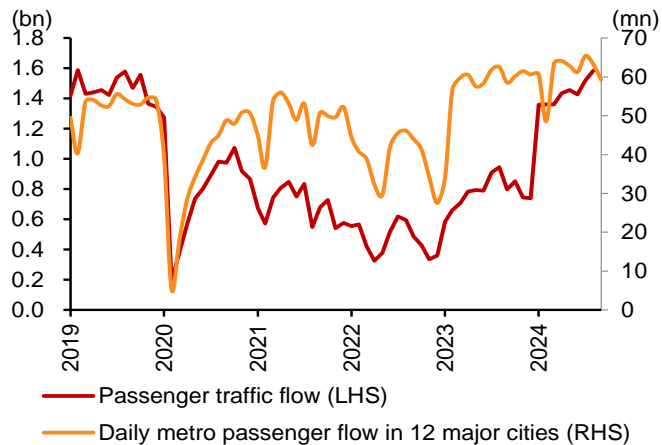
Source: Wind, CMBIGM

**Figure 11: Supply Delivery Index**



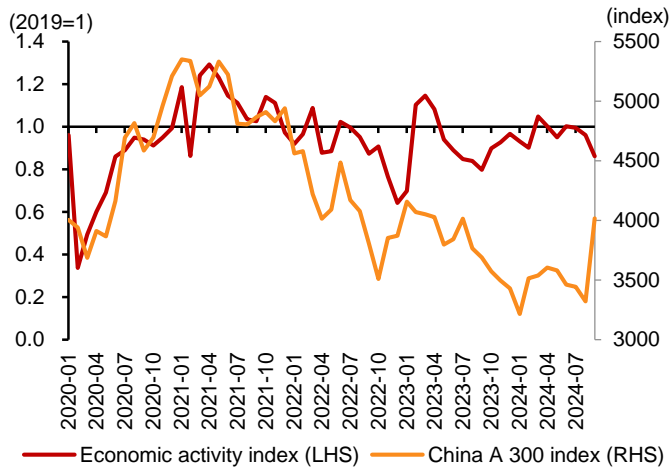
Source: Wind, CMBIGM

**Figure 12: Passenger flow**



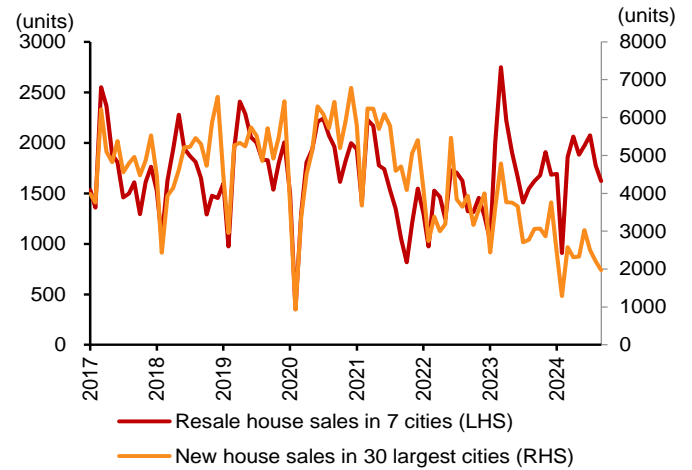
Source: Wind, CMBIGM

**Figure 13: Economic Activity & A Share Index**



Source: Wind, CMBIGM

**Figure 14: House sales**



Source: Wind, CMBIGM

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