

China Economy

PMI indicates continuous economic recovery

China's PMI indicates manufacturing sector continued to expand with slowing recovery pace while service activity further rebounded thanks to continuous improvement of population mobility and outgoing activity. China's reflation pressure was low as ex-factory price index remained below 50%. The country could maintain accommodative credit policy to support the growth. The recent RRR cut by the PBOC indicates its easing bias for liquidity and credit policy. New export order index declined as exports may have remained weak. The recent overseas banking sector turmoil would hurt consumer confidence and credit supply expansion as we expect exports of goods to drop 3.5% in 2023 after rising 7% in 2022.

- Manufacturing sector continued to expand with slowing pace while service activity further recovered.** China's PMI in manufacturing dropped to 51.9% in March from 52.6% in February, yet remained in the expansionary territory. Meanwhile, new order index and business expectation index in manufacturing respectively declined from 54.1% and 57.5% to 53.6% and 55.5%, indicating a probable slowdown of recovery in manufacturing industries amid exports slump and profit squeeze. For service sector, PMI and new order index further rebounded from 55.6% and 54.7% in February to 56.9% and 58.5% in March, as population mobility, outgoing activity and social activity continued to recover. By sector, PMI in retail sales, railway transport, air transport, internet, banking and business service reached above 60% indicating strong sentiment in those sectors. PMI in construction rose from 60.2% in February to 65.6% in March thanks to strong infrastructure investment and improvement of property development investment.
- Reflation pressure was low as ex-factory price index further declined.** The ex-factory price index in manufacturing, construction and service sectors respectively dropped to 48.6%, 50.9% and 47.3% in March from 51.2%, 53.6% and 50.4% in February, respectively. Raw material purchase price in those sectors also declined in March, indicating cost relief.
- Exports may have remained weak.** New export order index dropped from 52.4% in February to 50.4% in March. The recent overseas banking sector turmoil will hurt consumer confidence and credit growth with additional downside pressure on global economy. China exports may remain weak in the short term. We expect China exports of goods to drop 3.5% in 2023 after rising 7% in 2022.
- Employment was not strong as SMEs remained cautious on capex expansion.** Employment index in manufacturing dropped from 50.2% in February to 49.7% in March as the manufacturing upgrade towards higher labour productivity indicates less labor demand. Employment index in service remained below 50% in March as SMEs were still cautious to expand capex. In March, PMI in small enterprises was 50.4%, much lower than 53.6% for large enterprises. To boost employment, China has to restore the confidence of private and small & medium businesses.

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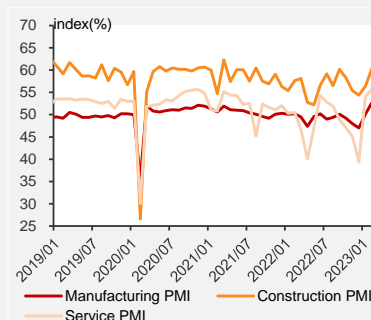
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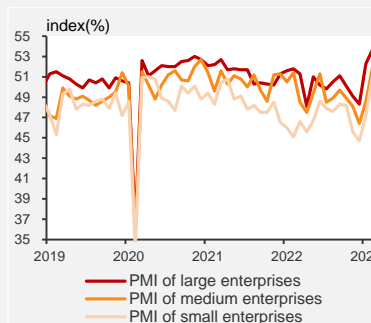
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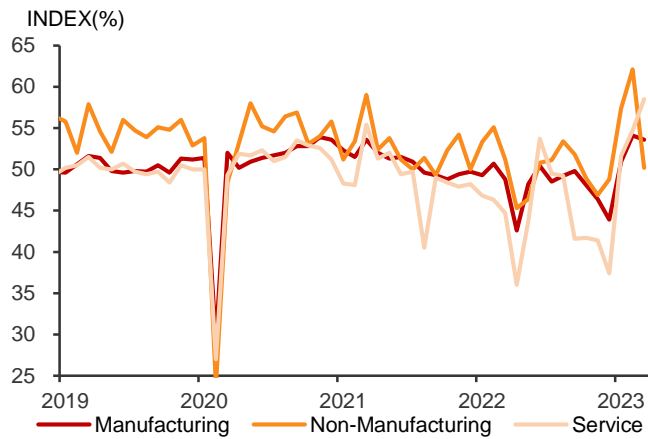


Source: NBS, CMBIGM



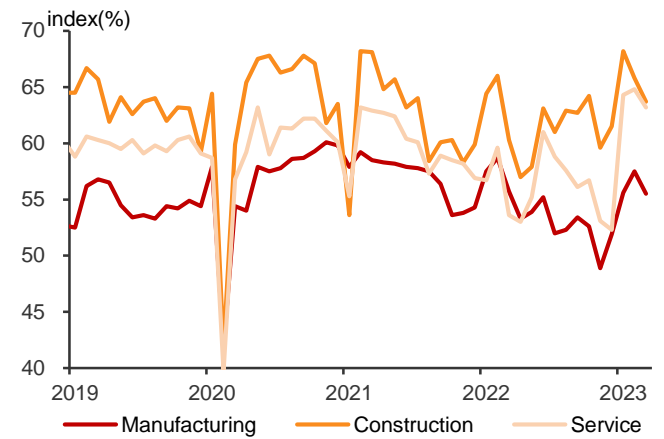
Source: NBS, CMBIGM

Figure 1: New Order Index



Source: WIND, CMBIGM

Figure 2: Business Sentiment Index



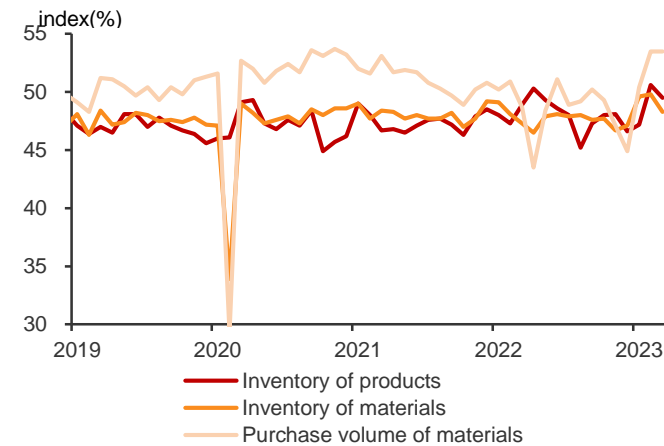
Source: WIND, CMBIGM

Figure 3: Export Order Index and Import Index



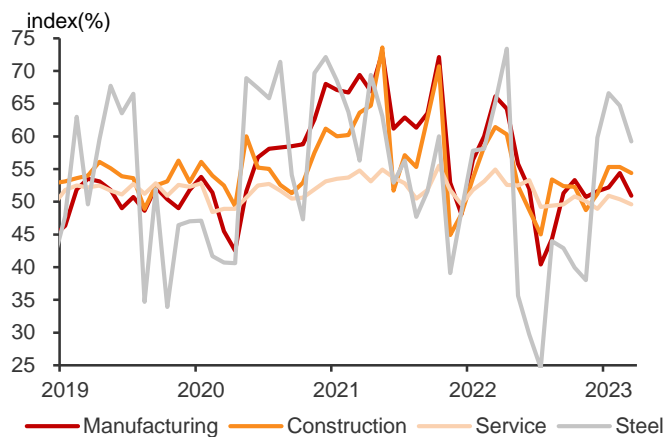
Source: WIND, CMBIGM

Figure 4: Inventory Index



Source: WIND, CMBIGM

Figure 5: Material Purchase Price Index



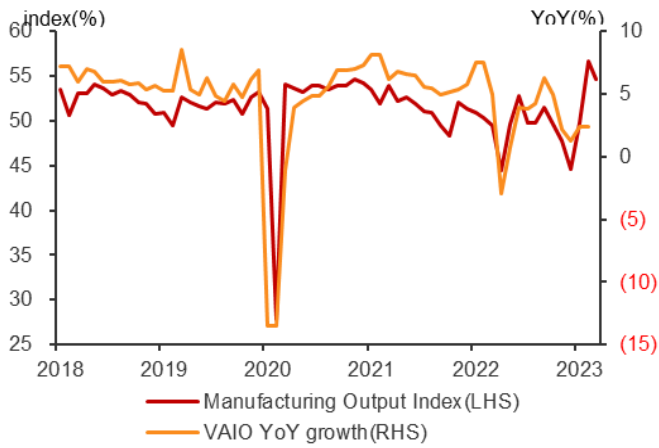
Source: WIND, CMBIGM

Figure 6: Ex-factory Price Index



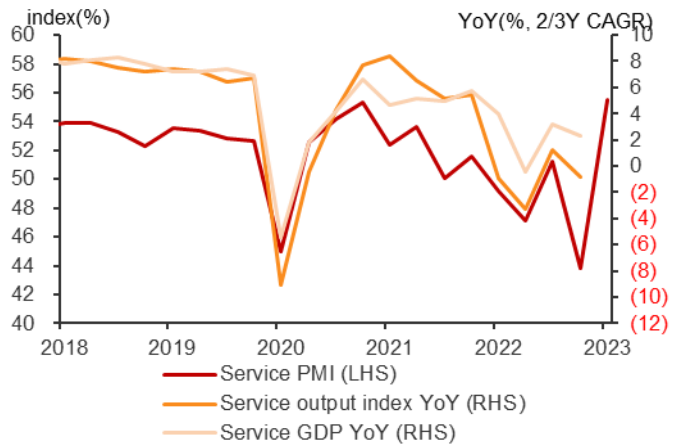
Source: WIND, CMBIGM

Figure 7: Manufacturing Output Index



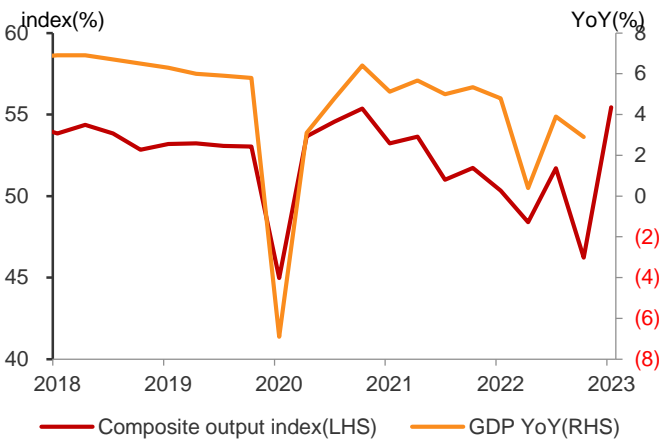
Source: WIND, CMBIGM

Figure 8: Service PMI & Output Index



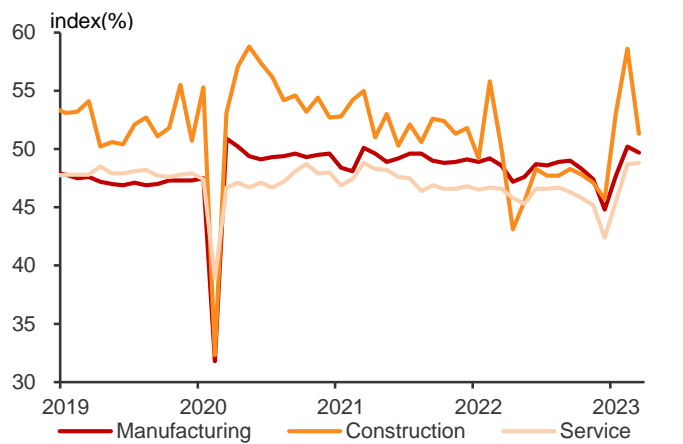
Source: WIND, CMBIGM

Figure 9: Composite Output Index



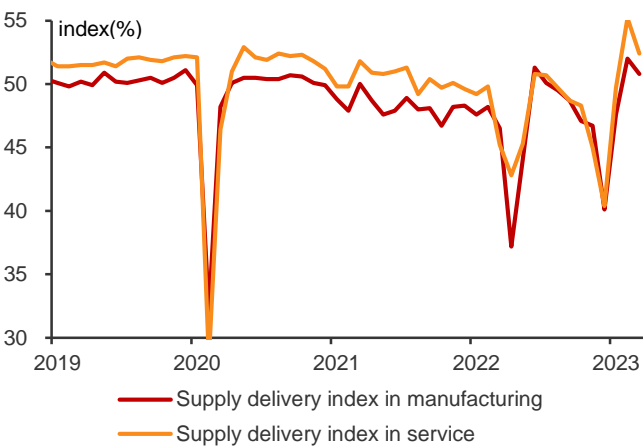
Source: WIND, CMBIGM

Figure 10: Employment Index



Source: WIND, CMBIGM

Figure 11: Supply Delivery Index



Source: WIND, CMBIGM

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