

China PMI in Dec

A tempo

As one of the most important leading economic indicators, China's PMI in Dec read 50.2% (50.2% in Nov as well), above the expansion/contraction cutoff. While the rebound in Nov was more or less attributable to seasonal factors (e.g. resumed momentum after the October holiday), we think Dec's PMI data reaffirmed the recovery of economic activities in 4Q driven particularly by certain high-tech industries entering upcycles and beginning restocking, as well as improved export and import environment.

- **Manufacturing activities - A tempo.** PMI in Dec maintained a tempo pace at 50.2%, consistent with our forecast of resumed economic activities in 4Q. Among the major subindices, production, new export orders and import all documented improvement from last months'. When compared to Nov, however, trends across the spectrum of firm sizes were less synchronized – PMI of medium-sized firms rose 1.9ppt to 51.4% while that of large- and small-sized firms declined 0.3/2.2ppt to 50.6%/47.2%, respectively. Industry-wise, high-tech, equipment manufacturing and consumption goods manufacturing outperformed average and were trending better.
- **Inventory cycle gradually bottoming-out. Production likely pushed up by demand.** Recent data patterns (since 2H19) have exhibited a divergence of inventory pattern in which finished goods inventory declined while inventory of raw materials gained. Such trend is becoming clearer for certain industries, such as automobile, chemicals, telecommunication, etc. Thanks to these industries entering restocking upcycles, we think production could continue to improve.
- **Other highlights. 1) Warming export/import.** New export orders rose 1.5ppt to 50.3% (the first time above 50% in 19 months), alleviating conditions of export-oriented industries; **and 2) price subindices suggest pick-up of PPI growth in the upcoming months.** Price subindices for non-ferrous metals smelting and rolling industries and paper printing industry rose above 54% and high-frequency commodity prices foreshadow similar stories.
- **Construction PMI softened overall although showed divergence** – infrastructure construction remained strong thanks to speed-up of project financing, but housing construction weakened likely due to cold weather and the approach of new year holidays.

Data Summary

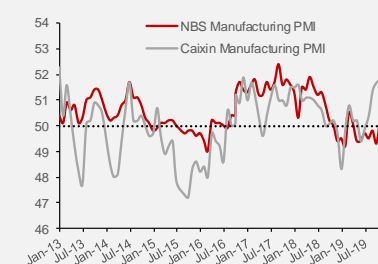
PMI and subindices	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Manufacturing PMI	49.5	49.8	49.3	50.2	50.2
- Production	51.9	52.3	50.8	52.6	53.2
- New orders	49.7	50.5	49.6	51.3	51.2
- New export orders	47.2	48.2	47	48.8	50.3
- Inventory of raw materials	47.5	47.6	47.4	47.8	47.2
- Employment	46.9	47	47.3	47.3	47.3
Non-manufacturing PMI	53.8	53.7	52.8	54.4	53.5

Source: NBS, CMBIS

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Source: NBS, CMBIS

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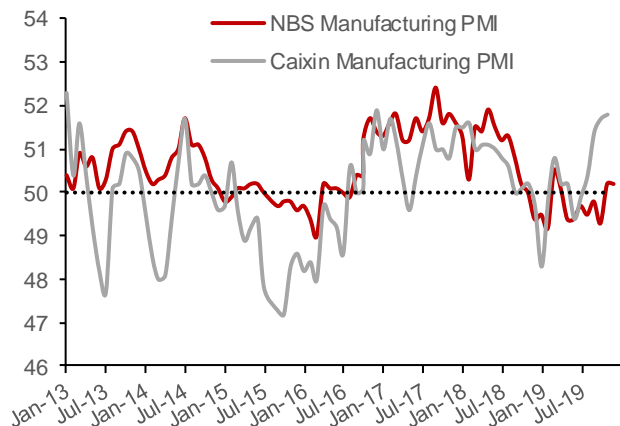
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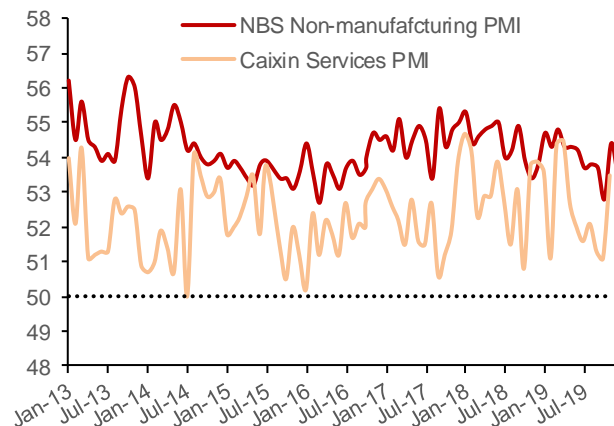
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Figure 1: NBS PMI read 50.2% in Dec



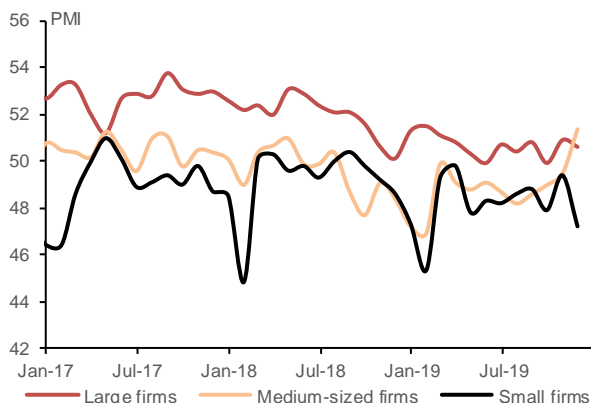
Source: NBS, Wind, CMBIS

Figure 2: Non-manufacturing PMI was 53.5% in Dec



Source: Caixin, Wind CMBIS

Figure 3: PMI across firm size spectrum



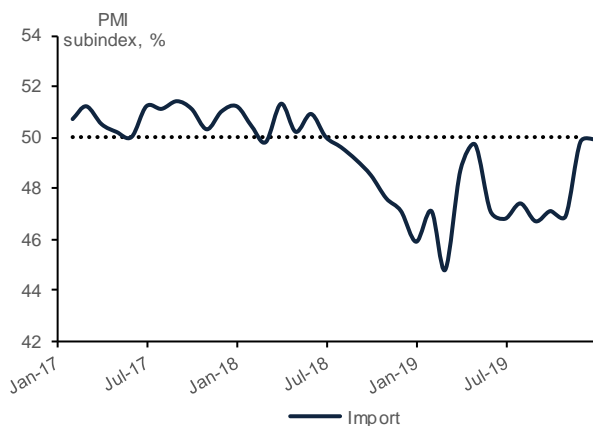
Source: NBS, Wind, CMBIS

Figure 4: Demand recovery on track



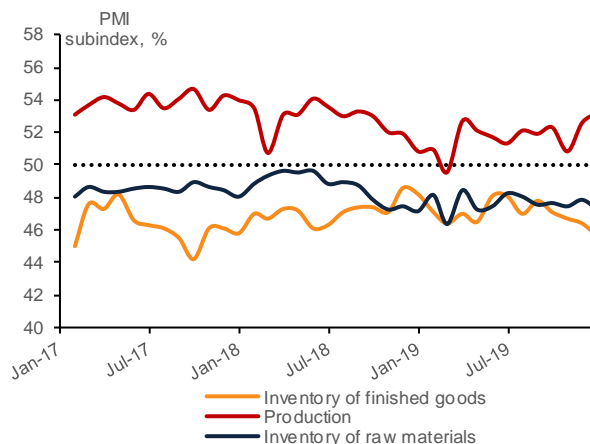
Source: NBS, Wind CMBIS

Figure 5: Import subindex



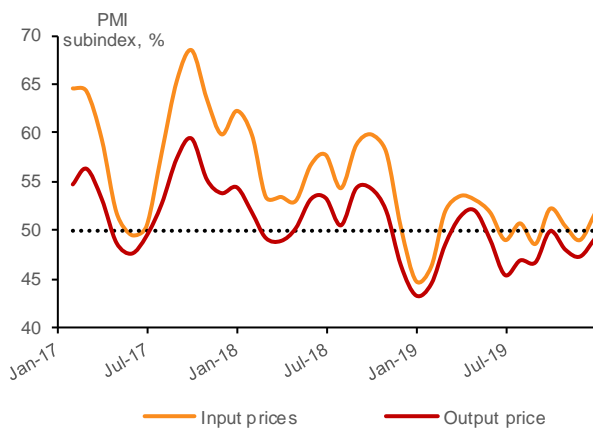
Source: NBS, Wind, CMBIS

Figure 6: Inventory cycle is bottoming out



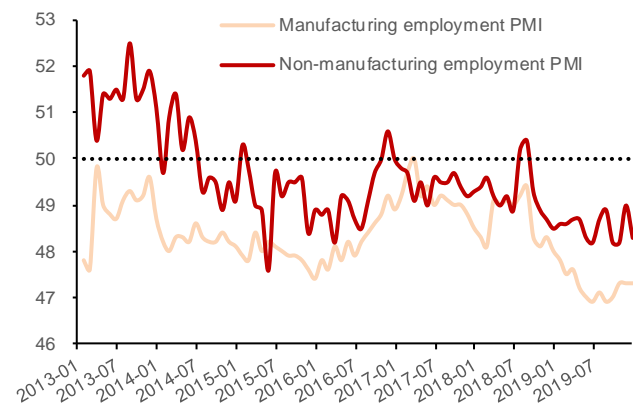
Source: NBS, Wind, CMBIS

Figure 7: Price subindices



Source: NBS, Wind, CMBIS

Figure 8: Employment subindices



Source: NBS, Wind, CMBIS

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