

China Economy

PMI beat expectations as economy continues to recover

China's PMI further rebounded as output, new orders and business sentiment all continue to improve. The economy remained good on its way to recover. Exports order index also rebounded probably because overseas demand and inflation was more resilient than expected and domestic supply chain further improved. However, we continue to expect China's exports of goods may drop by 3.5% in 2023 after rising 7% in 2022 due to overseas recession risk and disinflation trend. Imports volume may continue to improve, but a disinflation may restrain the growth of imports growth. China's imports of goods are expected to rise 0.5% in 2023 after growing 1.1% in 2022. China's reflation is moderate as ex-factory prices continued to mildly rise. China's GDP growth may reach 5.4% in 2023 and 4.9% in 2024 compared to 3% in 2022. The PBOC seems more cautious in RRR & LPR cuts in near term due to strong new credit and better-than-expected recovery in housing sales in 1Q23. But we cannot rule out their possibility in 2H23 as China's growth rate slows and overseas recession risk increases. China's credit policy should remain accommodative as the 2Y CAGR of GDP remains below potential growth and the reflation is moderate.

- PMI further rebounded in February amid the resumption of factory production and business activities after CNY break.** PMI in manufacturing saw one of the highest monthly improvements in decades as it rose from 50.1% in January to 52.6% in February. The indexes in furniture, metal product and electrical equipment increased to above 60% in February, indicating strong recovery momentum in those sectors. Meanwhile, PMI in construction climbed from 56.4% in January to 60.2% in February, reflecting a faster-than-expected recovery in construction activity. For service sector, PMI rose to 55.6% in February from 54.0% in January as the indexes in road transportation, air transportation, postal service, catering & accommodation and leasing & business activities all rose to the expansionary territory.
- New order and business sentiment continued to improve.** New order index in manufacturing, construction and service respectively rose from 50.9%, 57.4% and 51.6% in January to 54.1%, 62.1% and 54.7% in February. Business expectations improved in manufacturing and service sectors, yet declined in construction sector. Business sentiment indexes in agricultural processing, textile, general equipment, special equipment and autos increased to above 60% in February, indicating bullish expectations in those sectors.
- Exports and imports indexes improved as overseas economy was better than expected and supply chain further improved.** Exports order index and imports index respectively climbed from 46.1% and 46.7% in January to 52.4% and 51.3% in February, marking the first time for the two indexes to rebound to above 50% since June 2021. The exports may improve in near term, yet should remain weak in 1H23. We expect the exports to drop 3.5% in 2023 after rising 7% in 2022 due to overseas demand slowdown and disinflation process. The imports should improve as domestic demand gradually rebounds after the reopening. However, the disinflation may restrain imports value growth this year. We expect imports to rise 0.5% in 2023 after growing 1.1% in 2022.

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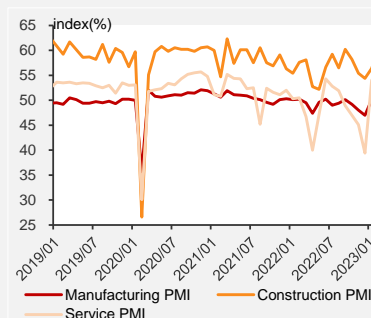
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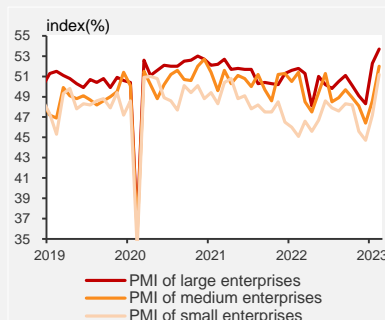
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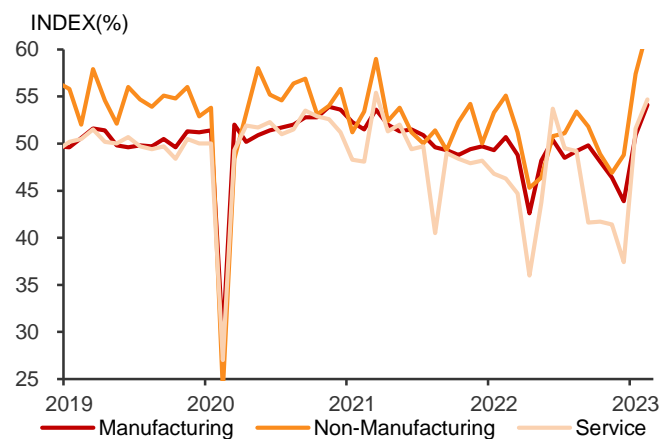
Source: NBS, CMBIGM



Source: NBS, CMBIGM

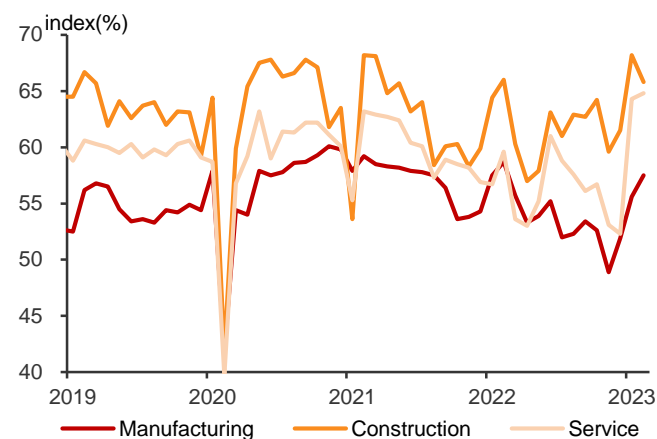
- **China had mild reflation pressure as ex-factory prices and material costs moderately increased.** Ex-factory price indexes in manufacturing, construction and service rose from 48.7%, 52.8% and 47.5% in January to 51.2%, 53.6% and 50.4 in February. Meanwhile, material cost pressure remained low as the cost index in manufacturing mildly increased while that in service sector declined. The ex-factory price index in steel product, general equipment and special equipment rose to above 60%, showing noticeable reflation pressure in those sectors.
- **Employment condition continued to improve yet remained weak in service sector.** Employment indexes in manufacturing, construction and service rose from 47.7%, 53.1% and 45.5% in January to 50.2%, 58.6% and 48.7% in February. The employment condition remained weak in service sector as the index was still below 50%. We expect the employment indexes to continue to improve, supporting a recovery of consumption this year.
- **China economy is on the way to recover with some fluctuations in the recovery pace.** The PMI in February indicates China economy is well on its way to recover as output, demand and sentiment continues to improve. Due to low base and recovery after the reopening, China's GDP growth is expected to rebound from 3% in 2022 to 5.4% in 2023 and 4.9% in 2024. The YoY growth rates may see some fluctuations with the peak at 2Q23 due to changes in base effect and recovery pace. The central bank seems more cautious on further RRR & LPR cuts in near term due to strong new credit and better-than-expected recovery in housing sales in 1Q23. However, we cannot rule out its possibility in 2H23 as China's recovery pace slows and overseas recession risk increases. China's credit policy should remain accommodative as the 2Y CAGR of GDP remains below potential growth and the reflation is still moderate.

Figure 1: New Order Index



Source: WIND, CMBIGM

Figure 2: Business Sentiment Index



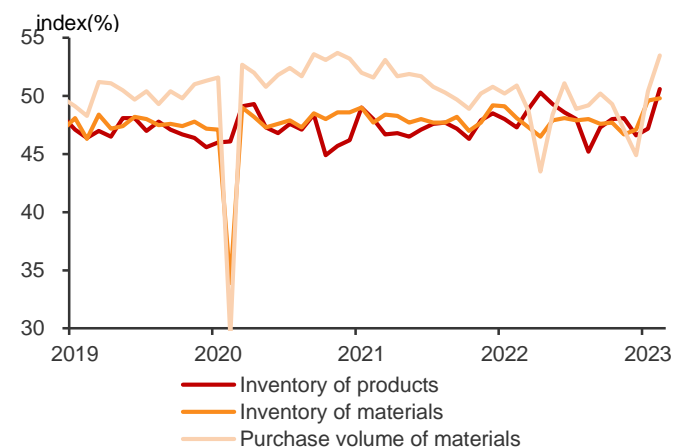
Source: WIND, CMBIGM

Figure 3: Export Order Index and Import Index



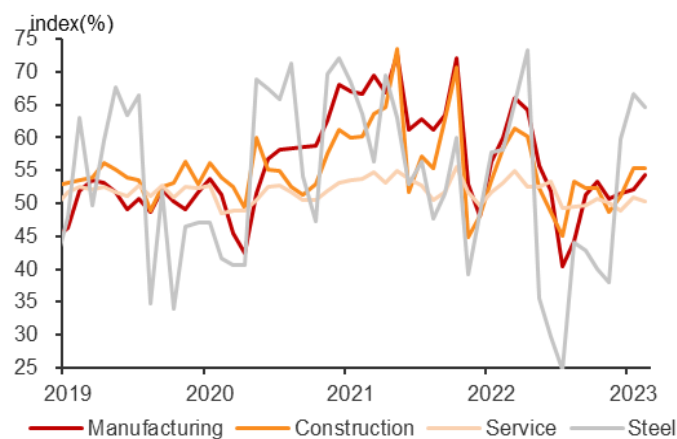
Source: WIND, CMBIGM

Figure 4: Inventory Index



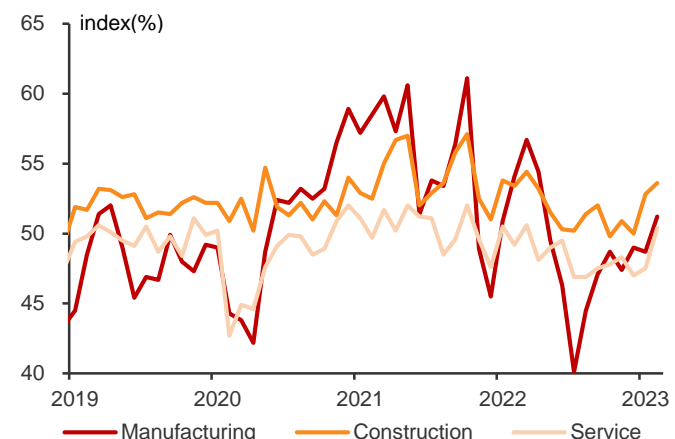
Source: WIND, CMBIGM

Figure 5: Material Cost Index



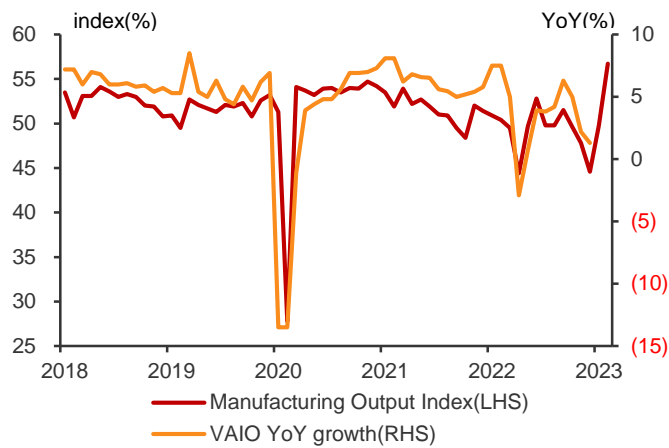
Source: WIND, CMBIGM

Figure 6: Ex-factory Price Index



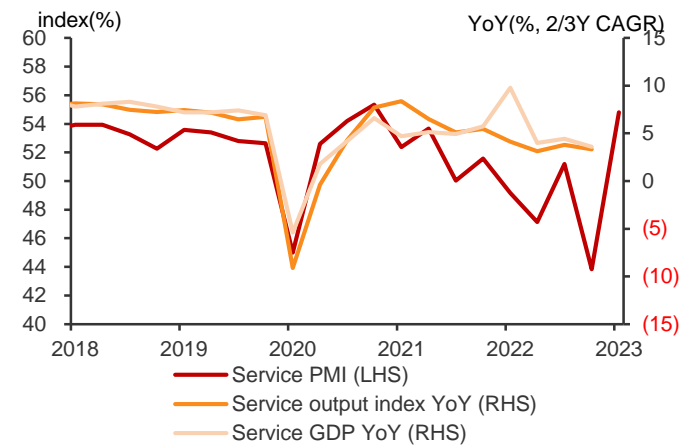
Source: WIND, CMBIGM

Figure 7: Manufacturing Output Index



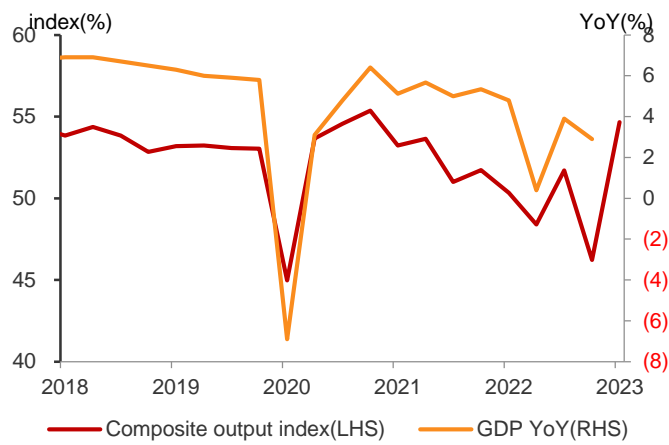
Source: WIND, CMBGM

Figure 8: Service PMI & Output Index



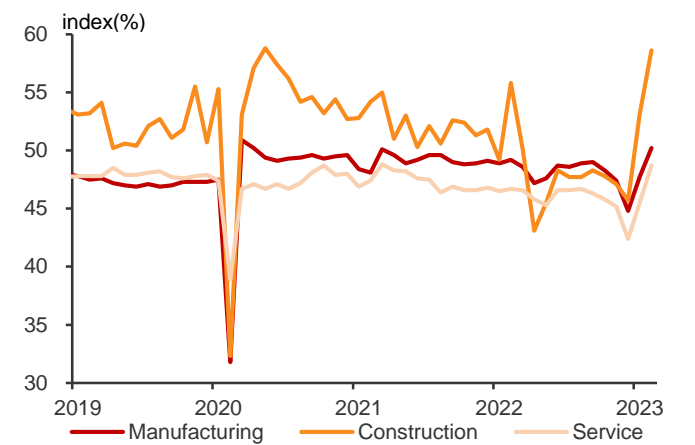
Source: WIND, CMBGM

Figure 9: Composite Output Index



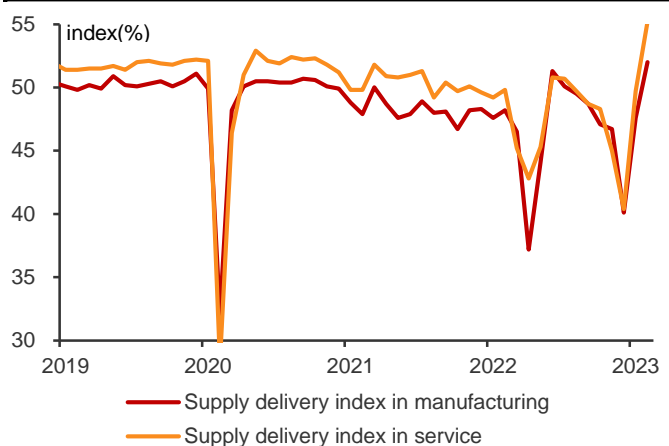
Source: WIND, CMBGM

Figure 10: Employment Index



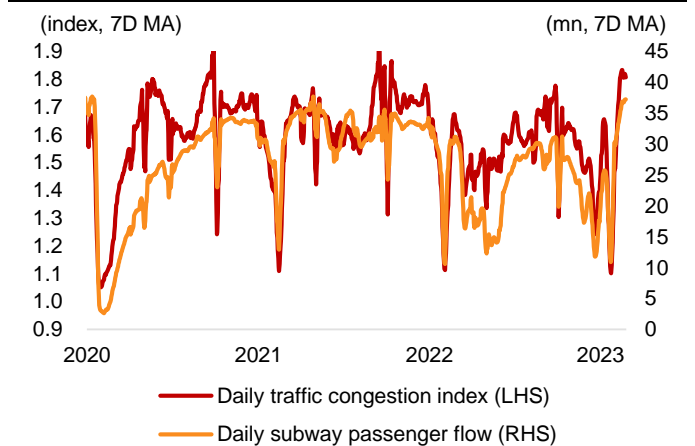
Source: WIND, CMBGM

Figure 11: Supply Delivery Index



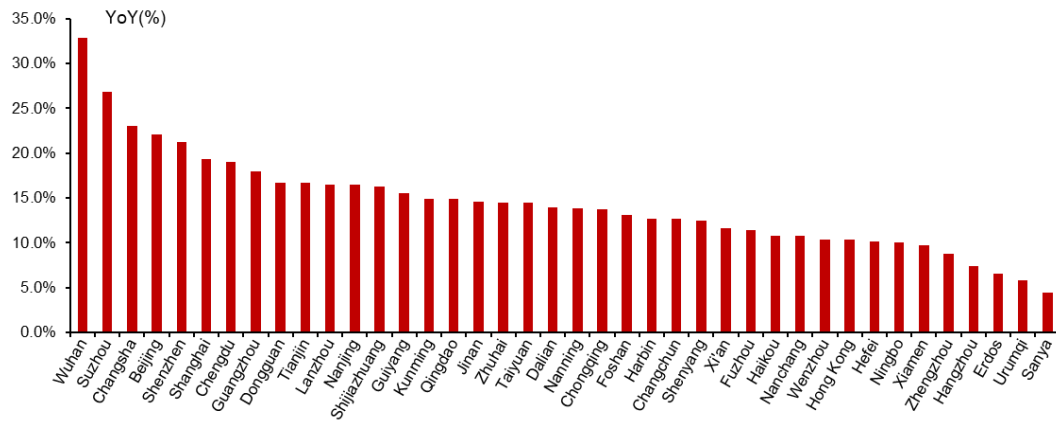
Source: WIND, CMBGM

Figure 12: Daily Mobility Index in Tier-1 Cities



Source: WIND, CMBGM

Figure 13: Traffic Congestion Index by City in Feb 2023



Source: Wind, CMBIGM

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