

# China Economy

## Growth remains weak in Sep-Oct before a gradual recovery

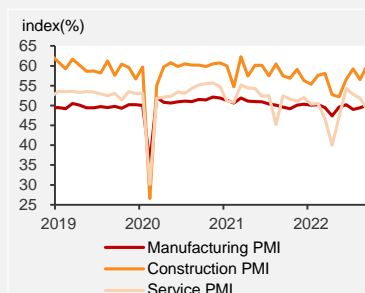
China's PMI in manufacturing sector slightly rebounded as consumption of goods slowly improved. But the gauge in service sector noticeably declined as local governments tightened zero-Covid policy before the 20<sup>th</sup> Party Congress meeting amid an increase of new cases in some cities. Therefore, both retail sales and service output should have slowed in September. We expect economic growth should remain weak in October as the virus control policy remains strict before the meeting. The situation may gradually improve from late October especially in housing market and household consumption. Liquidity and credit policy should remain accommodative as China's economy should see a gradual resumption in 4Q22-2023. We maintain our forecast on GDP growth at 3.5% for 2022 and 6% for 2023.

- **Manufacturing PMI mildly rebounded.** PMI in manufacturing sector rose from 49.4% in August to 50.1% in September, thanks to the stable growth of exports and slow resumption in consumption of goods. Food, beverage, medicine, non-metal mineral products, steel products and general equipment saw the most significant improvement as the indexes in those sectors all reached above 54% in September. The new order index for manufacturing rose from 49.2% in August to 49.8% in September yet remained in contraction range as demand was weak.
- **Construction PMI significantly improved.** PMI in construction sector rose from 56.5% in August to 60.2% in September. The gauge for the civil engineering construction industry reached 61%, the highest in the past four months. It indicates the recent policy support for infrastructure projects has facilitated a strong expansion of infrastructure construction activity in China. But new order index in construction sector dropped from 53.4% in August to 51.8% in September, indicating a possible slowdown of new project starts in future.
- **Service PMI noticeably declined amid stricter zero-Covid policy.** PMI in service sector dropped from 51.9% in August to 48.9% in September. Meanwhile, the new order index in service sector sharply decreased from 49.2% to 41.6%. By sector, retail sale trade, air transportation, accommodation, catering, and maintaining & repairing service experienced the most severe deterioration as PMIs in those sectors were all below 45%. The decline of service PMI is mainly due to stricter zero-Covid policy as new virus cases rebounded in some cities and it is close to the important political meeting. We note the mobility indicators like traffic congestion index and subway passenger flow noticeably declined. Therefore, both retail sales and service output may have slowed noticeably in September.
- **Slowdown of overseas demand while domestic demand remained weak.** Exports order index dropped from 48.1% in August to 47% in September as overseas demand gradually slowed. Import index slightly rose from 47.8% to 48.1%, but was still in a contraction condition. Business continued to reduce inventory investment as inventory index of finished products and that of materials remained below 50%.
- **Material cost rebounded but inflation pressure remained low.** Material cost index in manufacturing sharply rose from 44.3% in August to 51.3% in

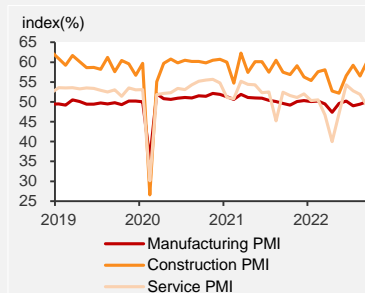
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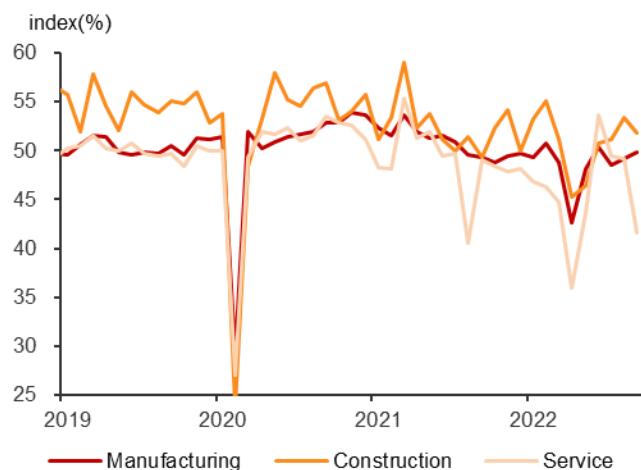
Source: NBS, CMBIGM



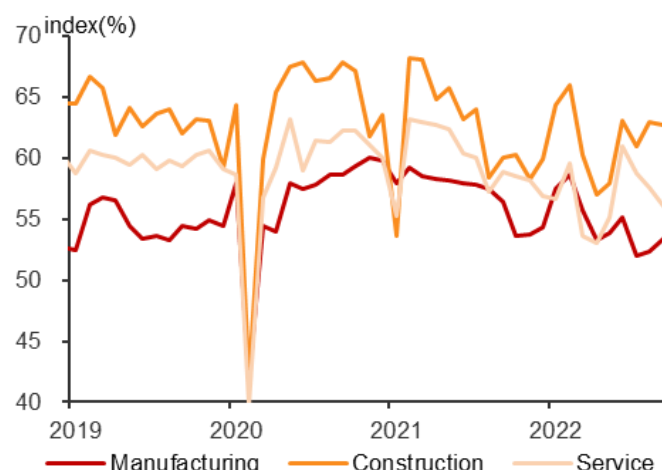
Source: NBS, CMBIGM

September. Ex-factory price index in manufacturing climbed from 44.5% to 47.1%, but was still below 50%. Ex-factory price index in service was also weak at 47.5% as service activity remained sluggish amid the zero-Covid policy.

- **Unemployment pressure still lingered.** Employment indexes in manufacturing, construction and service reached 49%, 48.3% and 46.3% in September, compared to 48.9%, 47.7% and 46.7% in August.
- **China's growth remains weak in Sep-Oct and may gradually improve from November.** China's economic growth declined in September and may remain weak in October, as local governments maintain stricter zero-Covid policy before the important political meeting. Mobility and service activity may gradually improve from late October. Housing market should be in a slow resumption trend in 4Q22-2023 as China maintains easing liquidity and credit policy. Household consumption may also gradually improve as employment, income and confidence slowly rebound amid a gradual easing of the zero-Covid policy next year. We maintain our forecast on GDP growth at 3.5% for 2022 and 6% for 2023.

**Figure 1: New Order Index**

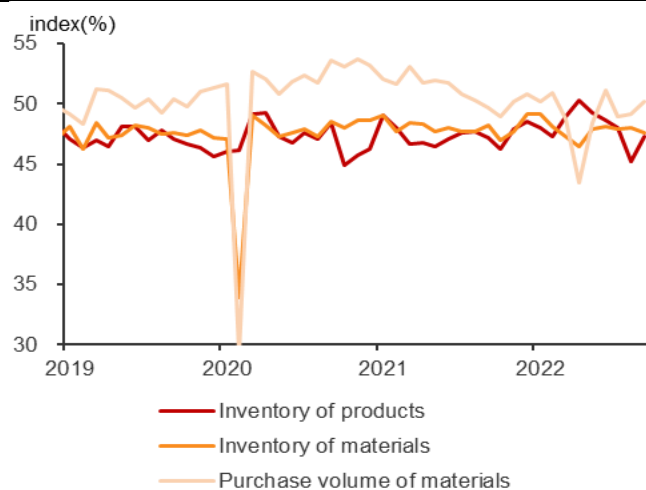
Source: NBS, CMBIGM

**Figure 2: Business Expectation Index**

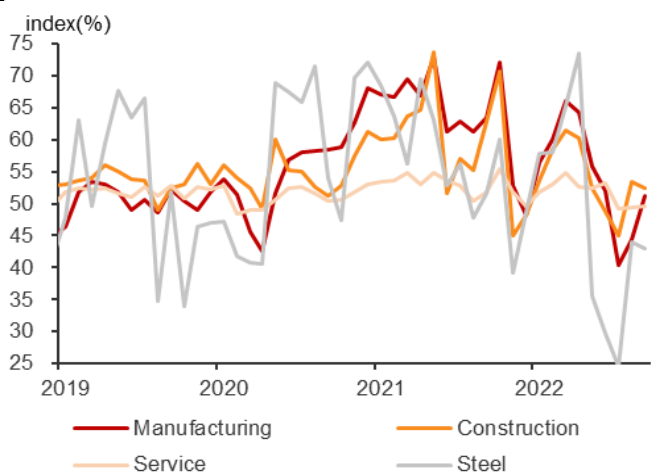
Source: NBS, CMBIGM

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

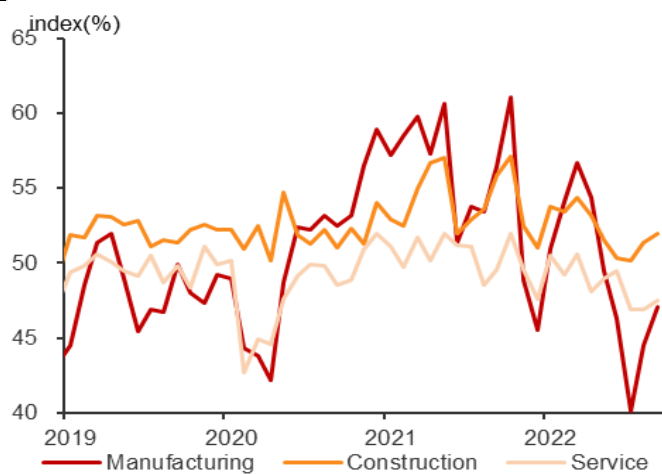
Source: NBS, CMBIGM

**Figure 4: Inventory & Material Purchase Index**

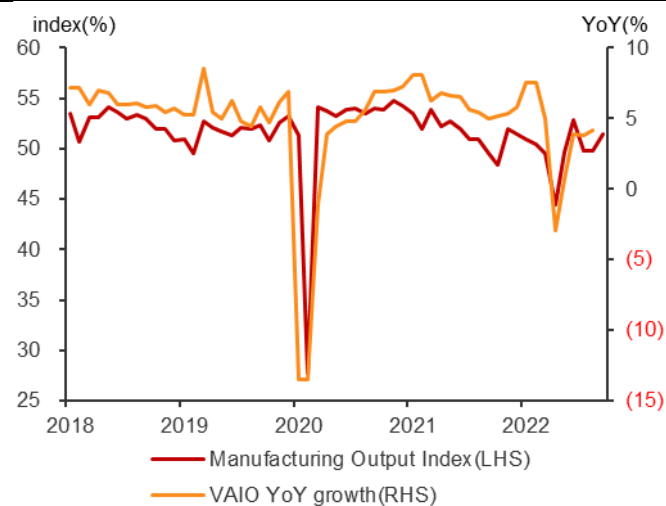
Source: NBS, CMBIGM

**Figure 5: Material Cost Index**

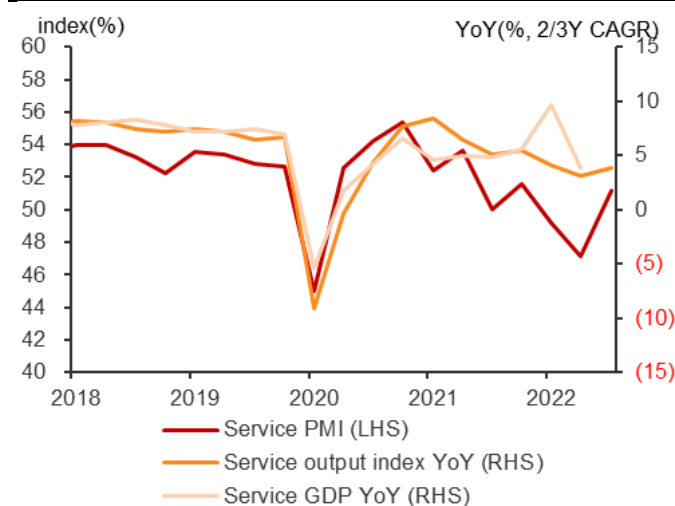
Source: NBS, CMBIGM

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

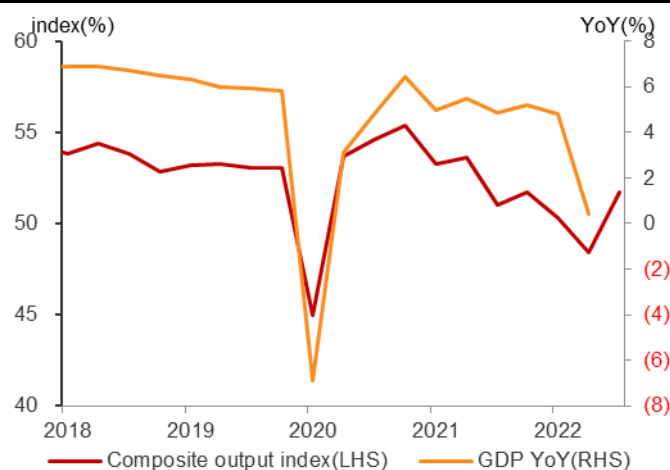
Source: NBS, CMBIGM

**Figure 7: Manufacturing Output Index**

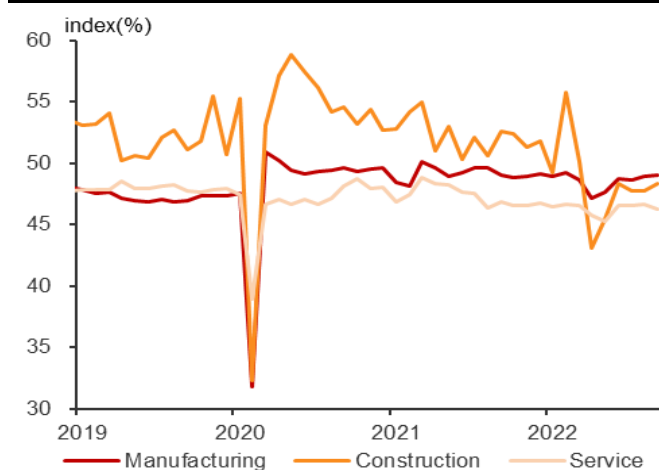
Source: NBS, CMBGM

**Figure 8: Service Output Index**

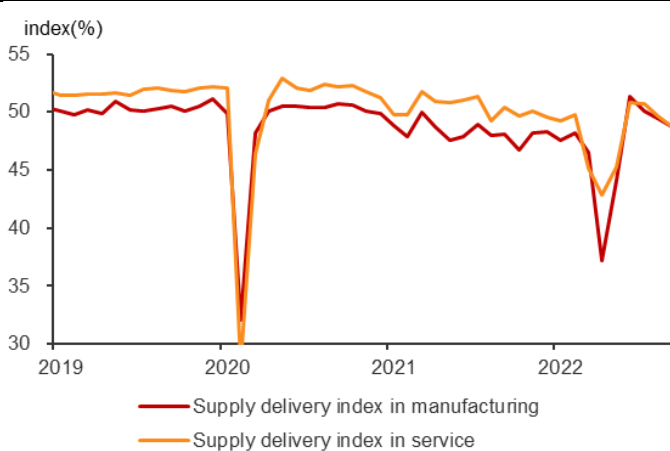
Source: NBS, CMBGM

**Figure 9: Composite Output Index**

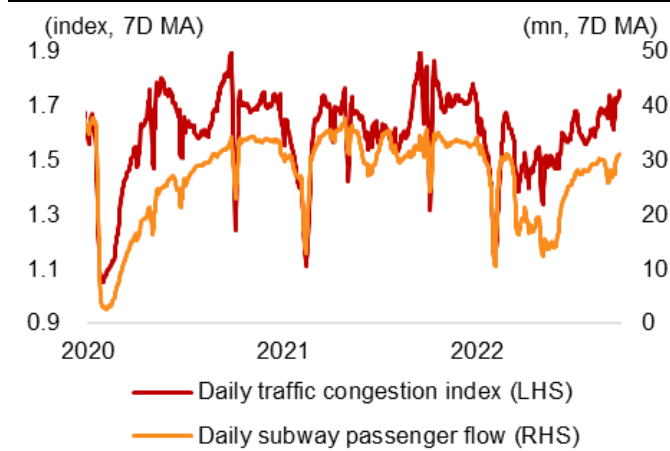
Source: NBS, CMBGM

**Figure 10: Employment Index**

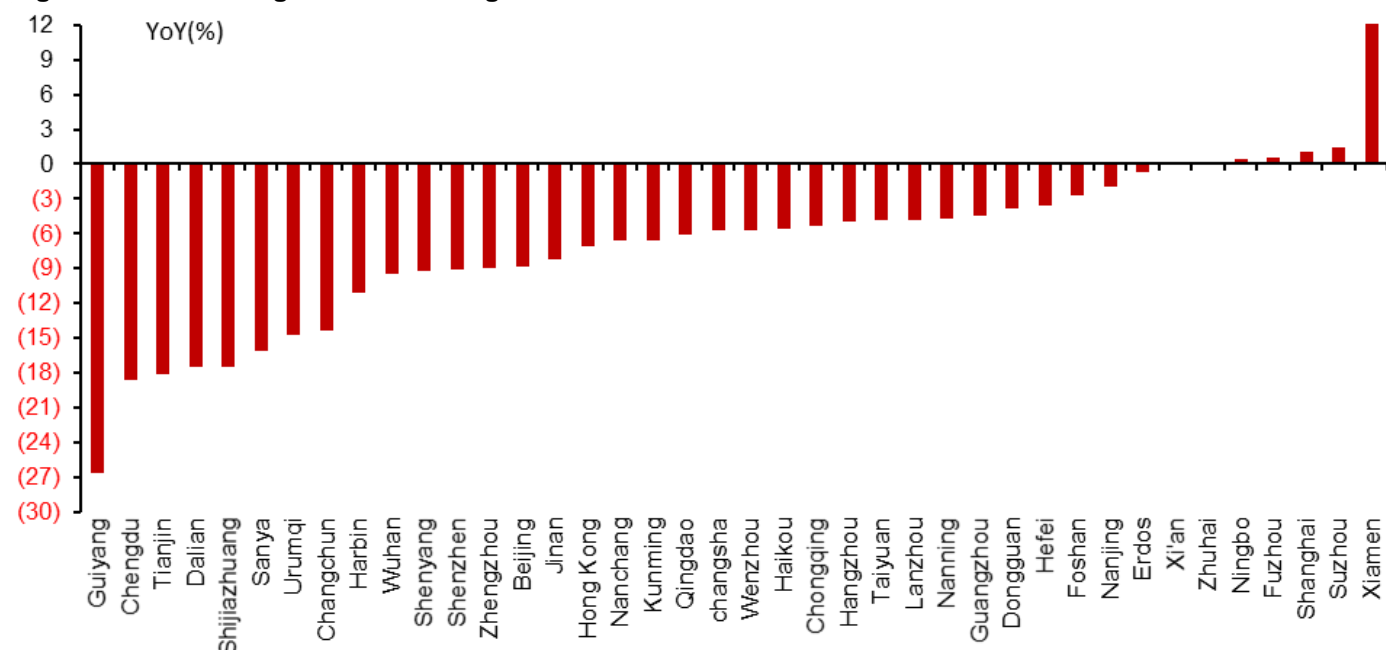
Source: NBS, CMBGM

**Figure 11: Supply Delivery Index**

Source: NBS, CMBGM

**Figure 12: Mobility Indexes in Tier 1 Cities**

Source: Wind, CMBGM

**Figure 13: YoY Change of Traffic Congestion Index**

Source: Wind, CMBIGM

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