

China Economy

PMI further softened

China's economy further softened as manufacturing PMI in Aug hit another YTD low since Feb and has contracted for the fourth consecutive month. Production slid into contraction dragged by weak demand in new orders. Corporate procurement notably contracted while de-stocking persisted. Construction activities sharply slowed down as its PMI receded to a new low since Feb 2020. Deflation in manufacturing further escalated as ex-factory price index notably dropped due to declining material purchase prices. Employment also remained sluggish, weighing on consumer sentiment, which currently hit a historic low. The softening PMI indexes, escalated deflationary pressure and deteriorating employment conditions all point to weakening economic momentum heading into 4Q24. The policymakers may start to focus on boosting consumption as they have increased fiscal subsidies to consumers for auto & home appliance upgrading recently and may further lower outstanding mortgage rates to relieve household debt burden. China's monetary policy may remain accommodative with additional cuts by 10-20bps in LPRs, refinancing rates and deposit rates in the remainder of the year.

■ Manufacturing PMI dipped further amid broad-based deterioration.

China's manufacturing PMI dropped to 49.1% in Aug from 49.4% in July, hitting another YTD low since Feb and missed the consensus expectation of 49.5%. New orders index edged down to 48.9% in Aug from 49.3%, the lowest since last Dec, as demand softened amid weaker consumer sentiment and employment conditions. New export order edged up to 48.7% from 48.5%. Dragged by sluggish demand, production index slid into contraction at 49.8% from 50.1%. Existing order further contracted to 44.7% from 45.3%, while supplier delivery time further shortened with its index at 49.6%. The extent of contraction in corporate procurement deepened to 47.8% in Aug from 48.8%, the lowest reading since Dec 2022. De-stocking persisted as raw materials inventory and finished goods inventory kept contracting, registering 47.6% and 48.5% in Aug compared to 47.8% and 47.8% in July. Breaking down by sector, new orders index of food, alcohol, beverages & tea, transportation equipment other than vehicle and electrical equipment showed booming demand and production while chemical fibers, rubber & plastic products, ferrous metal smelting and processing, specialized equipment and etc. remained in deep contraction. PMI of large enterprises inched down to 50.4% in Aug from 50.5%; while medium and small enterprises notably contracted to 48.7% and 46.4% from 49.4% and 46.7% from 49.8% and 47.4%.

■ Deflation in manufacturing products further escalated amid decline in raw material prices.

Ex-factory price index sharply dropped to 42% in Aug from 46.3%, the lowest reading since May 2023, as material purchase prices dropped to 43.2% in Aug from 49.9%. We might see some easing of cost-side deflationary pressure since global commodity prices have stabilized in Aug amid expectations of the Fed's pivot. Meanwhile, service price index dropped to 47.1% from 48%, while construction price softened to 48.1% from 49.3%. Looking forward, China's deflation pressure may minimally improve as CPI gradually rebounds within the lower positive range due to mildly reflating service prices and the low base effect. PPI may encounter more headwinds as previous cost-driven reflation runs its course while narrowing its YoY decline due to the base effect.

■ Service PMI mildly rebounded while construction activities notably slowed down.

Non-manufacturing PMI edged up to 50.3% in Aug from 50.2%, slightly above market expectation. Service PMI expanded to 50.2%

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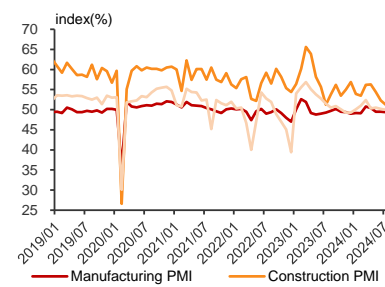
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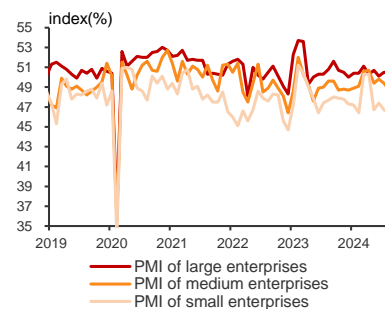
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Source: NBS, CMBIGM

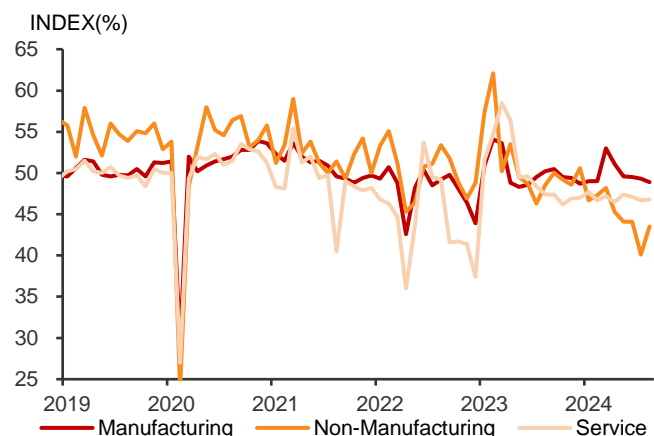


Source: NBS, CMBIGM

in Aug compared to 50% in July. New order index marginally rebounded to 46.8% from 46.7%, while business activity expectations dropped to 55.4% from 56.6%, the lowest reading since Dec 2022. Breaking down by sector, activities in air and railway freight, postal services, TV & broadcast, and culture, sports & entertainment activities reached above 55% in Aug, while real estate, capital market and resident services stayed in contraction. Construction PMI sharply slowed down to 50.6% in Aug from 51.2% in July, the lowest reading since Feb 2020, as growth of fixed asset investment moderated. New order index rebounded to 43.5% from 40.1%.

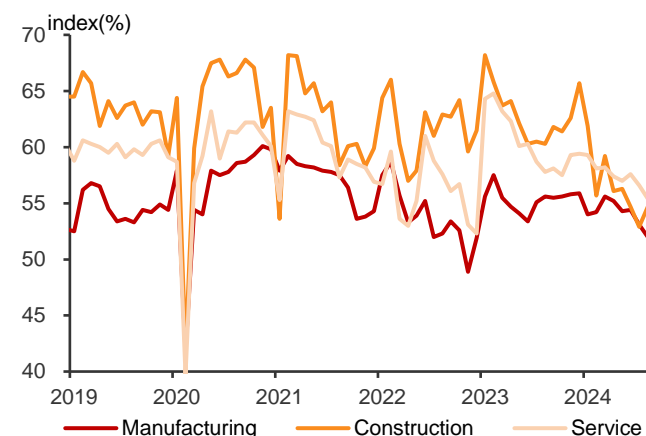
- **Employment remained sluggish.** Employment indexes in manufacturing, service and construction all remained in contraction. The first two declined to 48.1% and 45.9% in Aug from 48.3% and 46.4% while the latter edged up to 41% from 40.2%. The weakening employment conditions have weighted heavily on consumption, as consumer sentiment index reached another low in June.
- **China is poised to further loosen policies to support the economy.** The softening PMI indexes, escalated deflationary pressure and deteriorating employment conditions all point to weakening economic momentum heading into 4Q24. The policymakers have made a subtle shift towards demand-side stimulation as they raised fiscal subsidies to households for their auto & home appliance upgrading and may further lower outstanding mortgage rates. China will have further policy flexibility in 4Q24 as the higher likelihood of Harris winning indicates increasing consistency in China-US relationship while expectations of the Fed's pivot in Sep means concerns over exchange rates become less of a constraint for PBOC. China's monetary policy may remain accommodative with additional cuts by 10-20bps in LPRs, refinancing rates and deposit rates in the remainder of the year. China might strengthen its countercyclical support through credit and fiscal resources for the development of high-tech industries, existing home buybacks and private consumption stimulus.

Figure 1: New Order Index



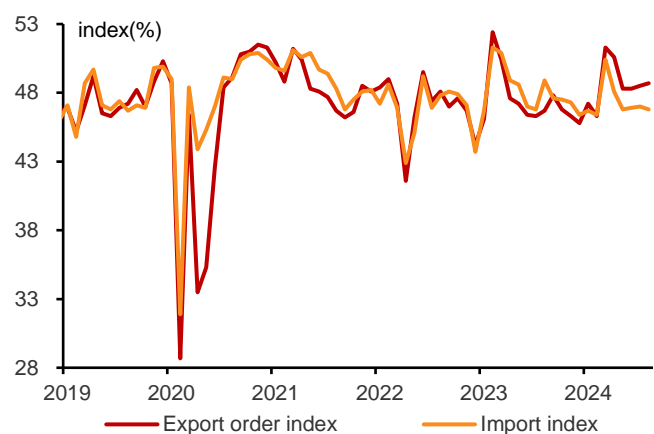
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index



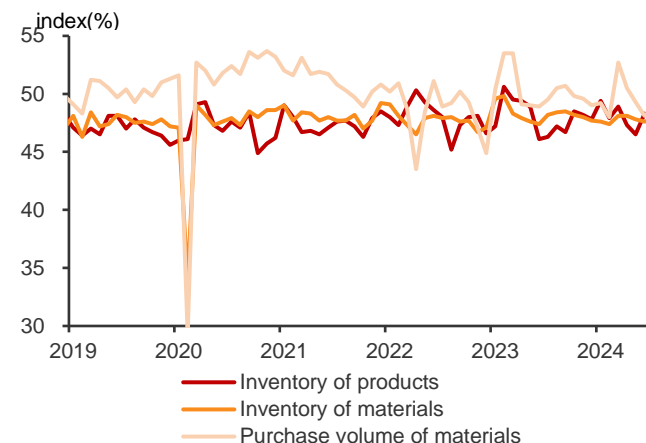
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index



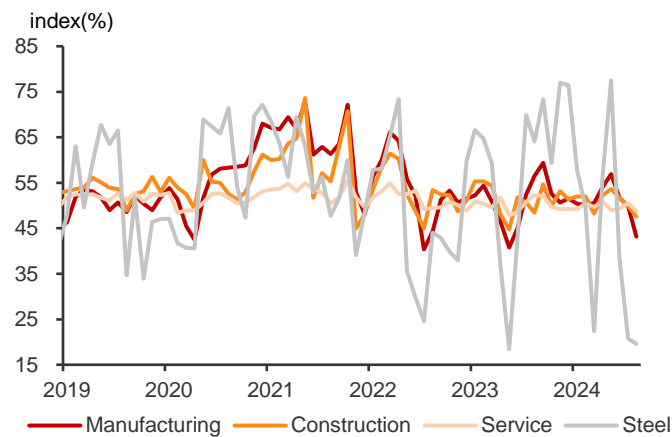
Source: Wind, CMBIGM

Figure 4: Inventory Index



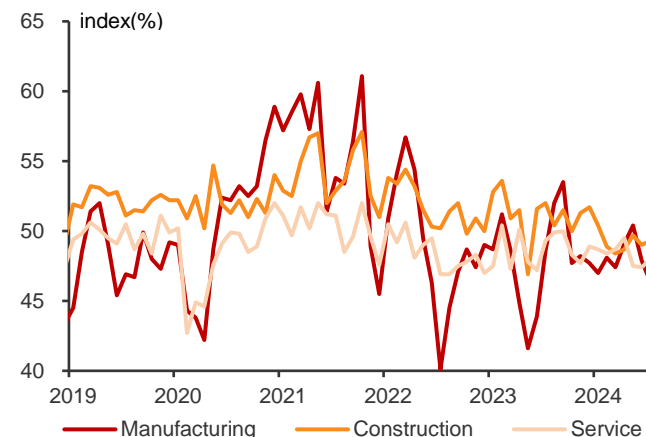
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index



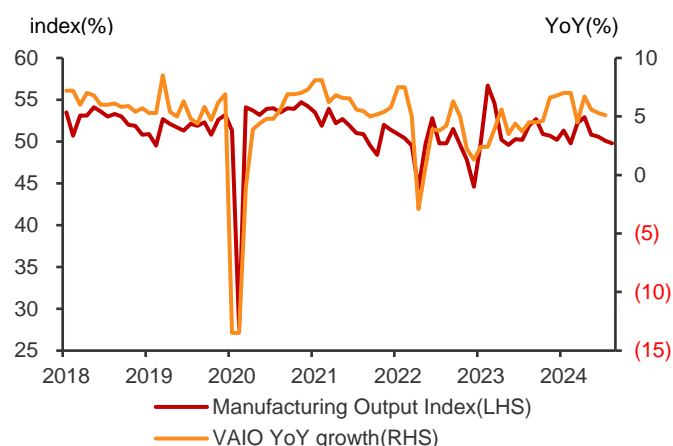
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index



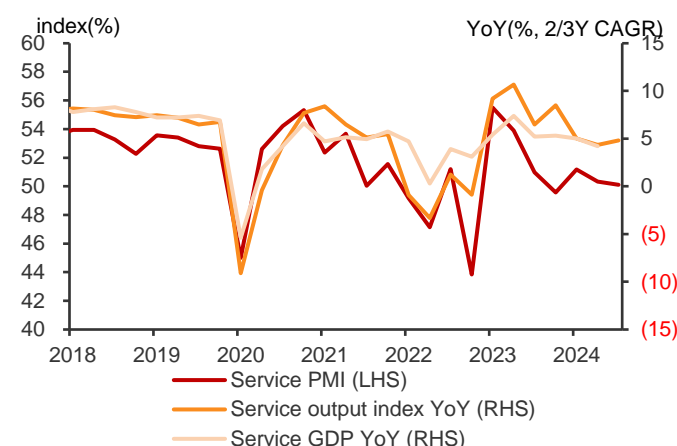
Source: Wind, CMBIGM

Figure 7: Manufacturing Output Index



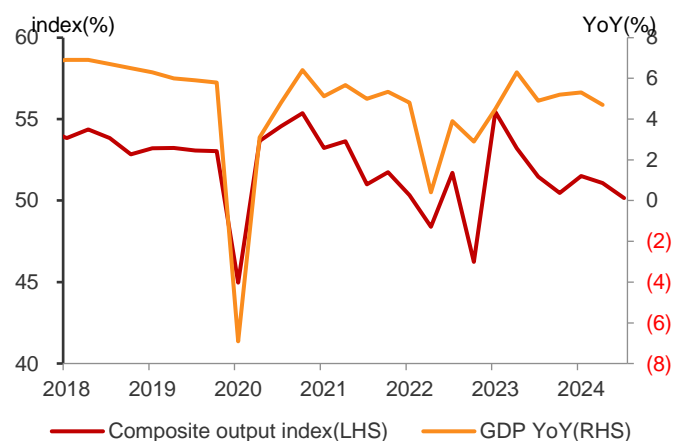
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index



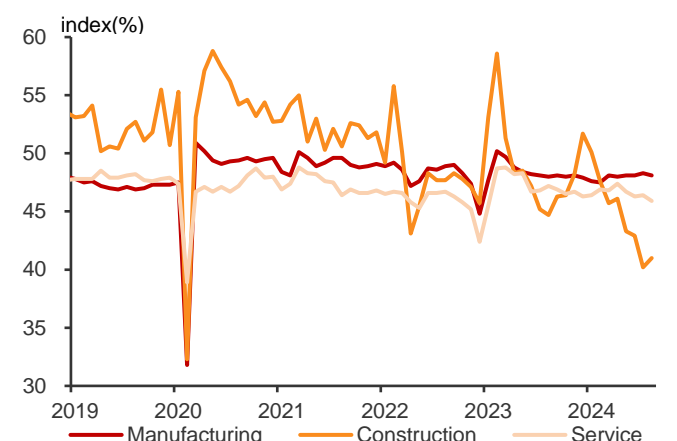
Source: Wind, CMBIGM

Figure 9: Composite Output Index



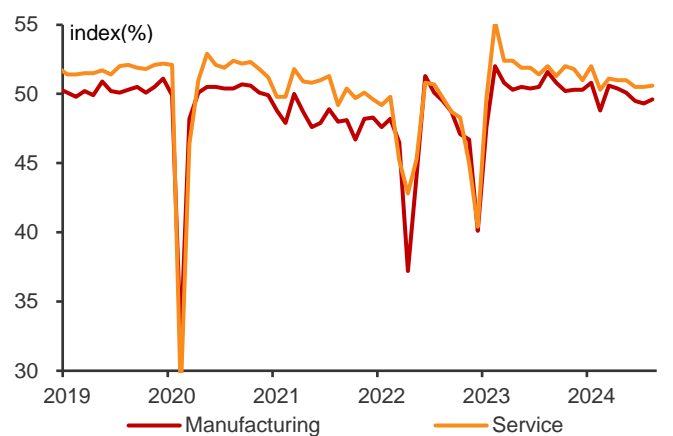
Source: Wind, CMBIGM

Figure 10: Employment Index



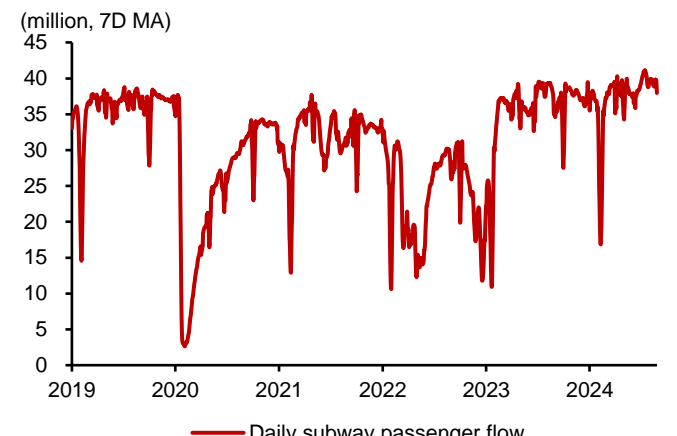
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index



Source: Wind, CMBIGM

Figure 12: Subway passenger flow in tier-1 cities



Source: Wind, CMBIGM

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