

China Economy

Growth slowed as the epidemic resurged

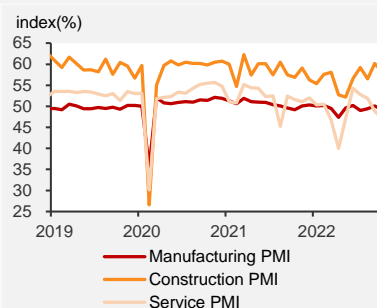
China's PMI in both manufacturing and service slid to the contraction territory, indicating a slowdown of growth in October. The epidemic resurged as some local governments further tightened the zero covid policy. The indexes in retail trade, air transportation, hotel, catering and tourism services declined. Meanwhile, housing market resumption was slow, as PMI in furniture and construction & decoration materials remained weak. Looking forward, China will maintain moderate easing policy and may gradually reopen its economy in 2023. We expect housing market and household consumption may slowly resume next year. We maintain our GDP forecast for 2022 at 3.5% and lower the forecast for 2023 from 5.5% to 5%.

- PMI declined as the epidemic resurged and housing market remained weak.** PMI in manufacturing dropped from 50.1% in September to 49.2% in October, indicating a contraction of factory activity. Meanwhile, PMI in construction declined from 60.2% to 58.2%, but remained at the expansionary territory thanks to strong infrastructure investment. The gauge in service further decreased from 48.9% to 47% as the resurgence of the epidemic hurt population mobility and service business. By sector, indexes in agricultural product processing, energy, medicine, auto, financial service, post service and internet & information technology service remained in the expansionary range.
- Demand weakened in most sectors.** New order index in manufacturing & construction respectively dropped from 49.8% and 51.8% in September to 48.1% and 48.9% in October. New order index in service remained low at 41.7% in October. Business expectation index in manufacturing slid from 53.4% in September to 52.6% in October. However, the sentiment index in construction and service respectively rebounded from 62.7% and 56.1% in September to 64.2% and 56.7% in October.
- Material cost rebounded while ex-factory prices remained weak.** Material cost index in manufacturing and service respectively rose from 51.3% and 49.6% in September to 53.3% and 50.8% in October. Ex-factory price index in the above two sectors climbed from 47.1% and 47.5% to 48.7% and 47.8%, but remained weak.
- Unemployment pressure further increased.** Employment indexes in manufacturing, construction and service respectively dropped from 49%, 48.3% and 46.3% in September to 48.3%, 47.8% and 45.8% in October.
- China economy should slowly resume in 2023.** Three key factors will determine China's economic prospect in 2023: the zero covid policy dynamics, economic and property policy condition and overseas recession risk. In base scenario, we expect China will gradually reopen its economy and maintain moderate easing economic policies in 2023. Both housing market and household consumption will slowly resume next year. We maintain our GDP forecast for 2022 at 3.5% and lower the forecast for 2023 from 5.5% to 5%.

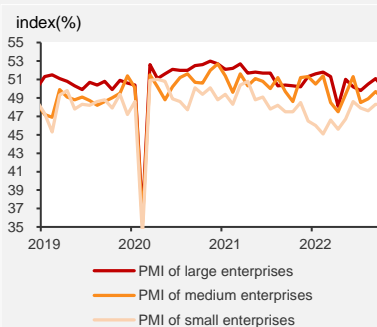
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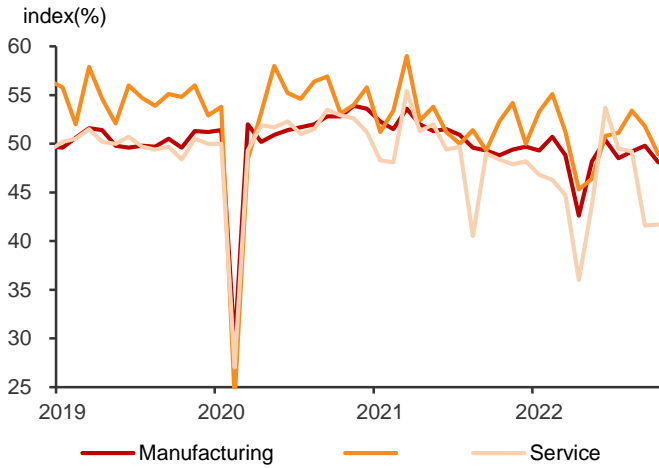


Source: NBS, CMBIGM



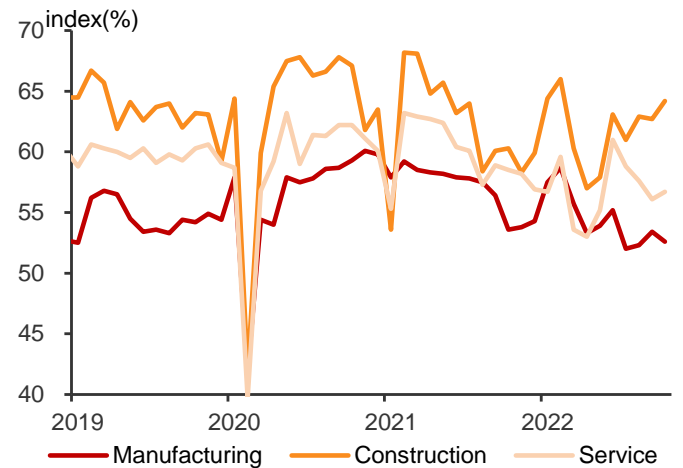
Source: NBS, CMBIGM

Figure 1: New Order Index



Source: NBS, CMBIGM

Figure 2: Business Expectation Index



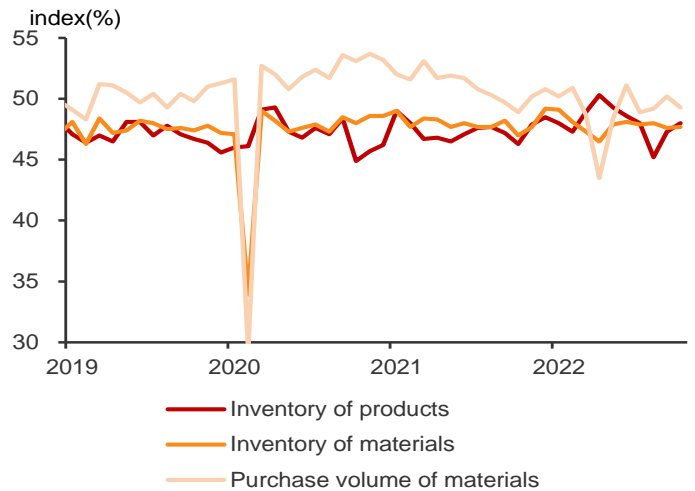
Source: NBS, CMBIGM

Figure 3: Export Order and Import Index



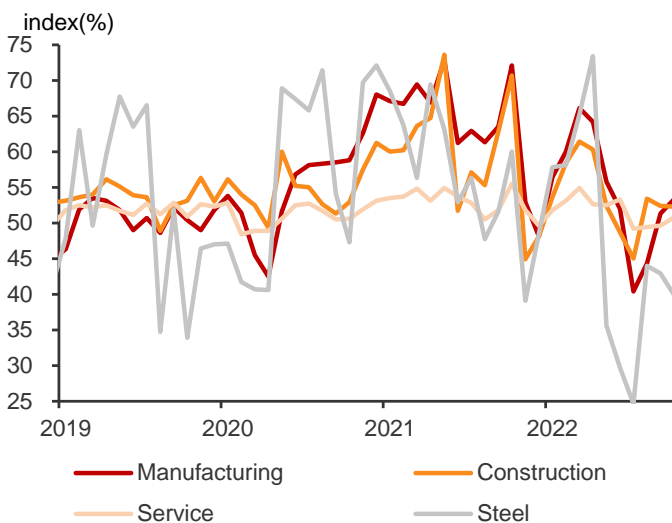
Source: NBS, CMBIGM

Figure 4: Inventory & Material Purchase Index



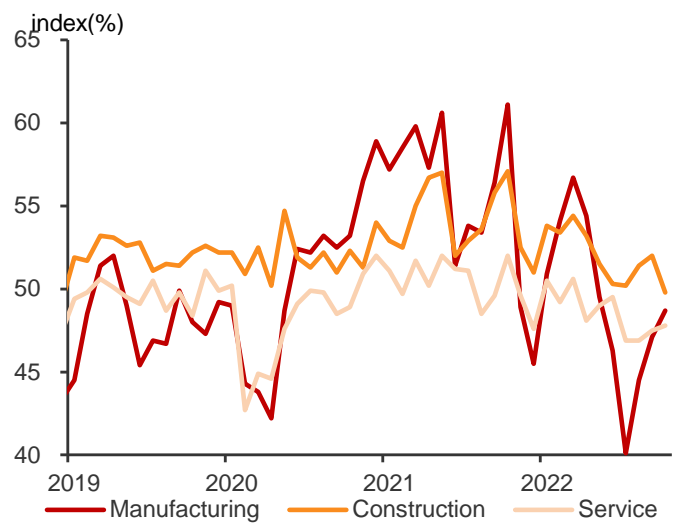
Source: NBS, CMBIGM

Figure 5: Material Cost Index



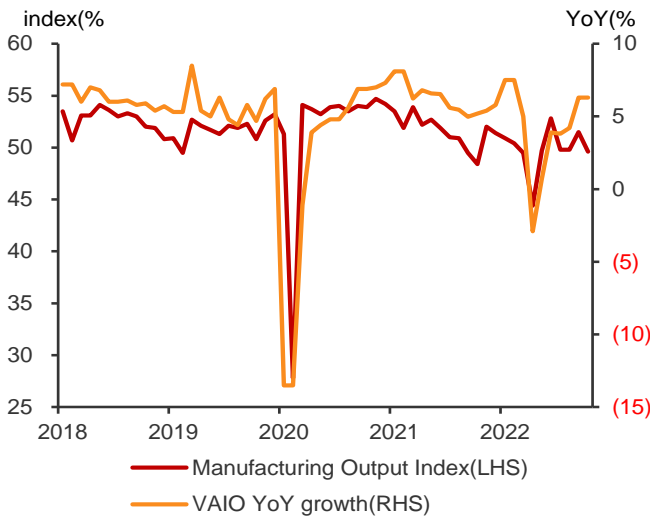
Source: NBS, CMBIGM

Figure 6: Ex-factory Price Index



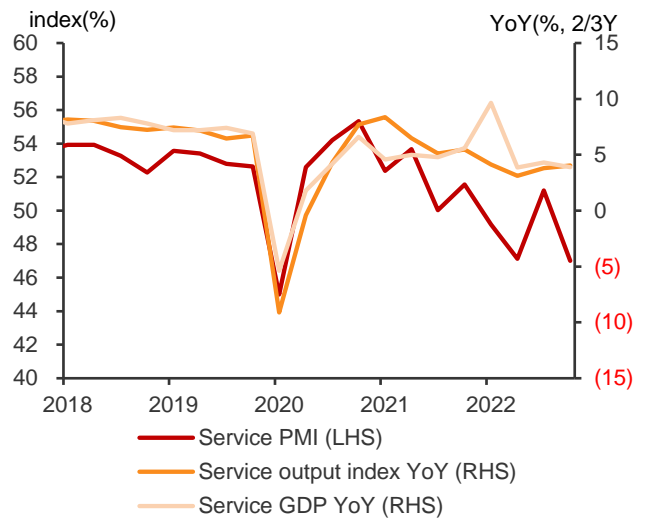
Source: NBS, CMBIGM

Figure 7: Manufacturing Output Index



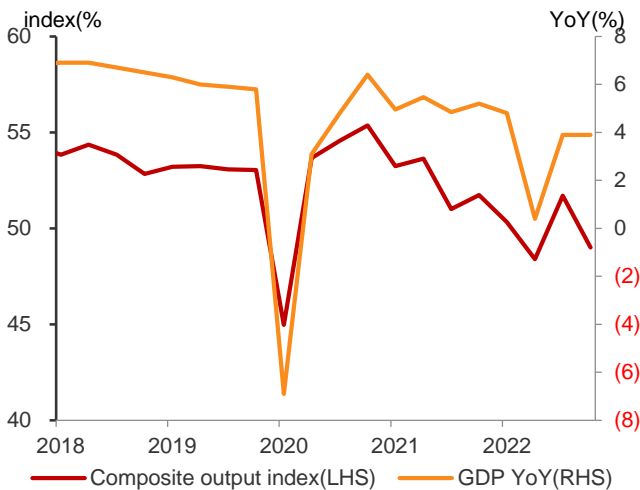
Source: NBS, CMBGM

Figure 8: Service Output Index



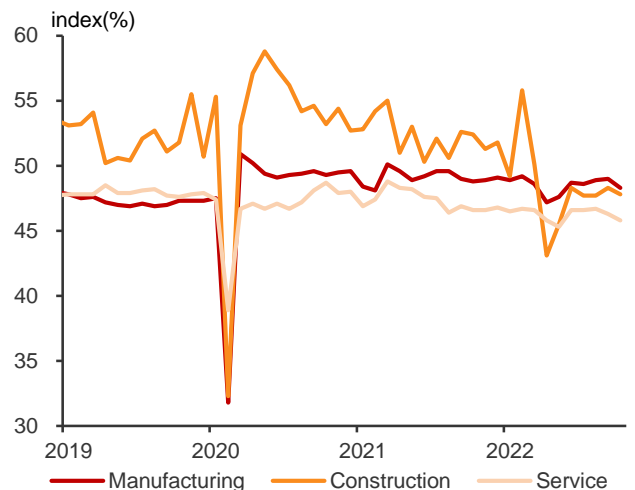
Source: NBS, CMBGM

Figure 9: Composite Output Index



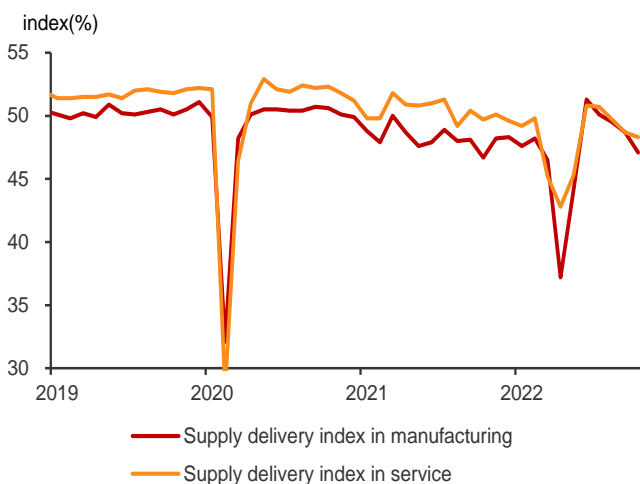
Source: NBS, CMBGM

Figure 10: Employment Index



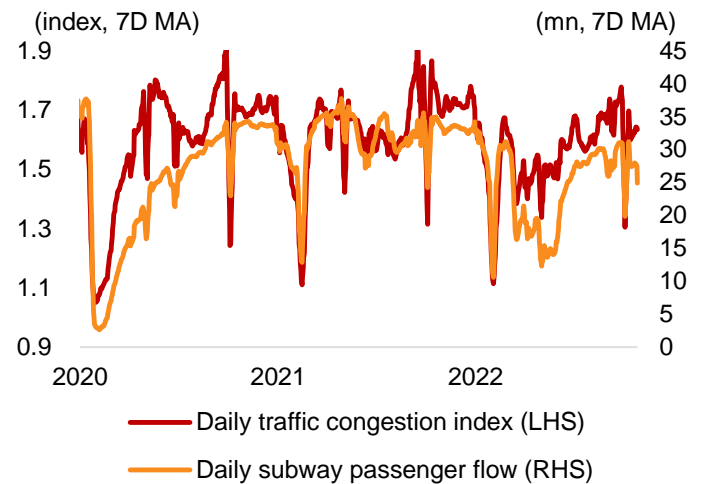
Source: NBS, CMBGM

Figure 11: Supply Delivery Index



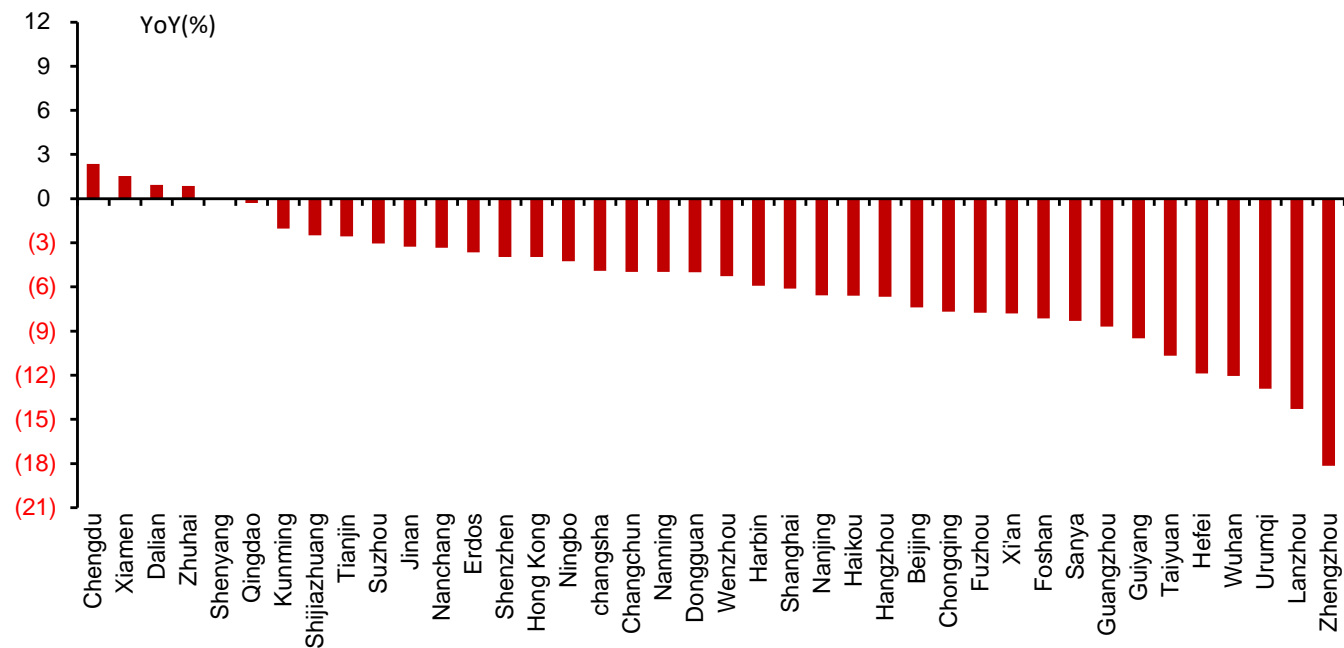
Source: NBS, CMBGM

Figure 12: Traffic Flow Index in Shanghai



Source: Wind, CMBGM

Figure 13: YoY Change of Traffic Congestion Index in Main Cities



Source: Wind, CMBIGM

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