

China Economy

PMI slumped amid resurgent pandemic

China's PMI slumped in March as the resurgent pandemic hurt the country's economic centers by slowing demand and disrupting supply chains. Both new orders and business expectations deteriorated, while material costs further increased. Export order and import index also decreased. Economy & earning prospects deteriorated in short term, as pandemic control became the priority. We expect China may further ease its monetary policies with possible RRR and LPR cuts to stabilize growth and boost market confidence.

■ PMI slumped as pandemic was resurgent in China's economic centers.

China's PMI in manufacturing and service respectively declined from 50.2% and 50.5% in February to 49.5% and 46.7% in March. The Covid-19 pandemic was resurgent first in Shenzhen and then in Shanghai as the two cities are the most important economic centers for the country. The virus condition in Shanghai was severe and may last for another two weeks. It had a noticeable negative impact on China economy and brought additional pressure on global supply chains. The Yangtze River Delta region accounted for 25% and 37% in China's GDP and foreign trade activity and Shanghai is the core city of the region.

■ PMI pointed to a slowdown of GDP growth in 1Q22.

The composite output index decreased from 51.7% in 4Q21 to 50.3% in 1Q22, pointing to a possible slowdown of GDP growth in the past two quarters. The output index in manufacturing declined from 50.4% in 4Q21 to 49.5% in 1Q22. Meanwhile, the PMI in service dropped from 51.6% in 4Q21 to 49.2% in 1Q22.

■ New order and business expectation sharply declined.

New order index in manufacturing, construction and service respectively declined from 50.7%, 55.1% and 46.3% in February to 48.8%, 51.2% and 44.7% in March, indicating weakening of demand in near term. Business expectations also deteriorated as the expectation index in the above three sectors decreased from 58.7%, 66% and 59.6% in February to 55.7%, 60.3% and 53.6% in March.

■ Export order and import index decreased.

Export order index and import index respectively declined from 49% and 48.6% in February to 47.2% and 46.9% in March. The Russia-Ukraine conflict hurt overseas demand and supply chain while the domestic epidemic sharply slowed domestic demand.

■ Material costs sharply increased amid the Russia-Ukraine conflict.

Material cost index in manufacturing, construction & service respectively further rose from 60%, 58.4% and 53.1% in February to 66.1%, 61.4% and 54.9% in March. The Russia-Ukraine conflict disrupted supply chain for some commodities and pushed up material costs for China's downstream industries. Ex-factory price index in manufacturing, construction & service respectively increased from 54.1%, 53.4% and 49.2% in February to 56.7%, 54.4% and 50.6% in March. It indicates a pick-up of the MoM growth of the producer price index (PPI) in March.

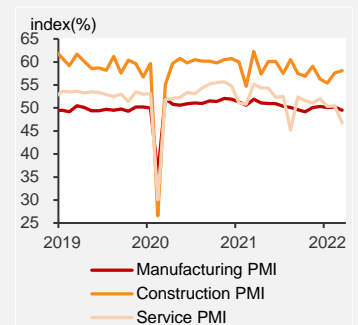
■ Economy & earning prospects deteriorated in short term as pandemic control became the priority.

After some debate, the Chinese policymakers insisted on the Covid-zero strategy. In other word, the pandemic control will continue to be the priority for China in the short term. Due to the fast spread

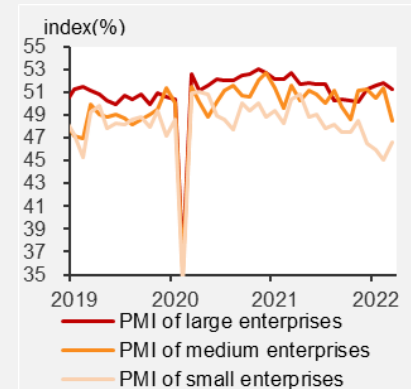
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Source: NBS, CMBIGM



Source: NBS, CMBIGM

of Omicron virus, controlling the epidemic requires a substantial economic cost in near term.

- **Macro policies are likely to further ease.** China may further ease its monetary policy with moderate cuts in required reserve ratio (RRR) and loan prime rates (LPRs). Both credit and M2 growth may gradually rebound in next several months. The fiscal budget plan was announced at the National People's Congress meeting in March. Broad deficit ratio is planned to decline from 6.3% in 2021 to 5.8% in 2022. But fiscal expenditure is planned to grow 8.4% in 2022, up from 1.8% in 2021. The main support is from the unused fiscal funds last year and the profit distribution from the central bank and some SOEs this year.

Figure 1: New Order Index



Source: NBS, CMBIGM

Figure 2: Business Expectation Index



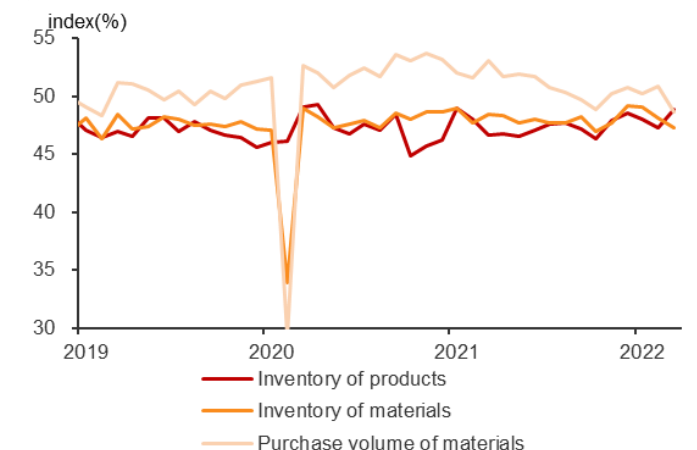
Source: NBS, CMBIGM

Figure 3: Export Order and Import Index



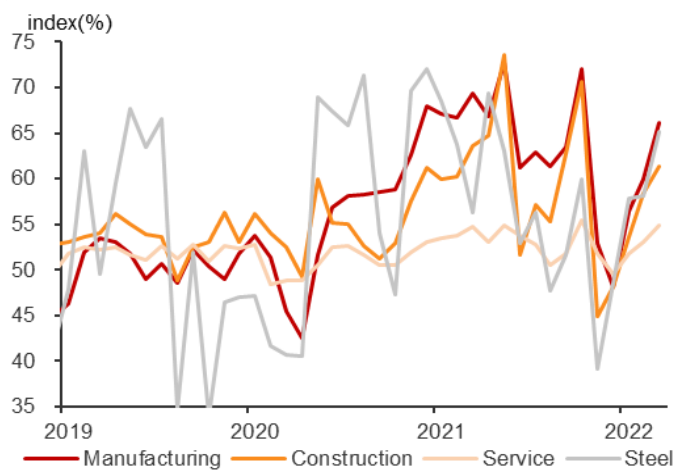
Source: NBS, CMBIGM

Figure 4: Inventory & Material Purchase Index



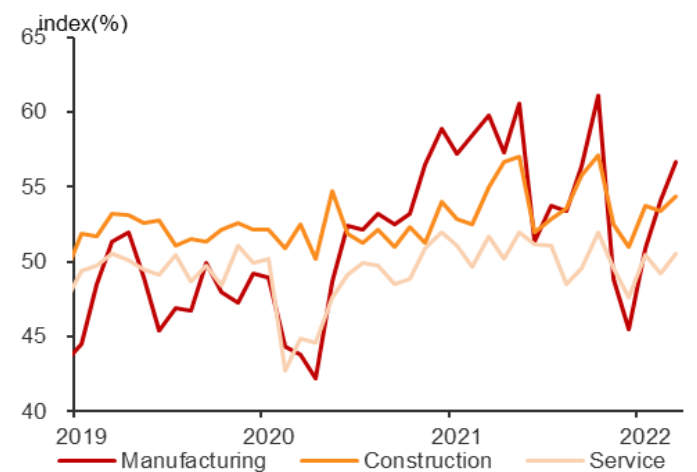
Source: NBS, CMBIGM

Figure 5: Material Cost Index



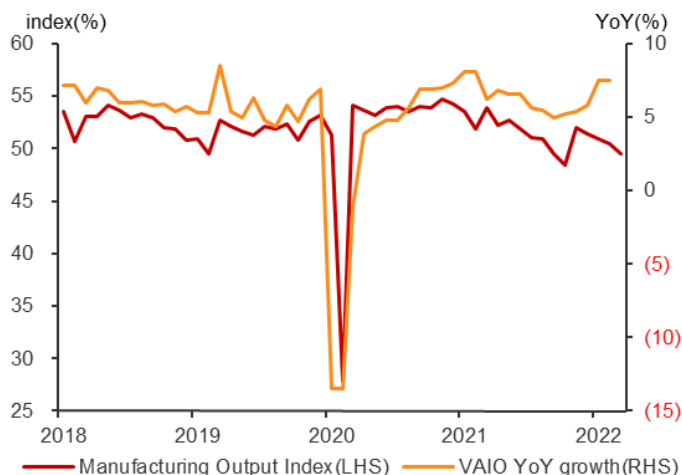
Source: NBS, CMBIGM

Figure 6: Ex-factory Price Index



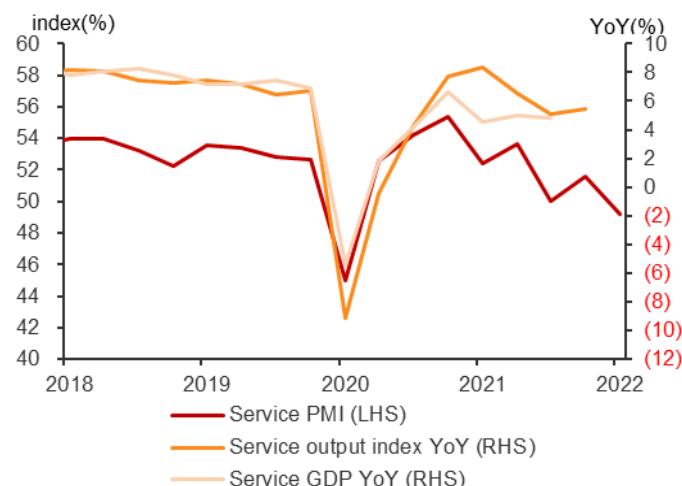
Source: NBS, CMBIGM

Figure 7: Manufacturing Output Index



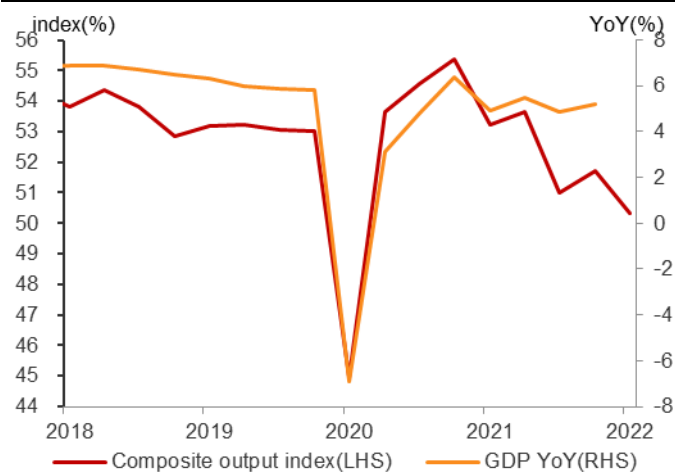
Source: NBS, CMBGM

Figure 8: Service Output Index



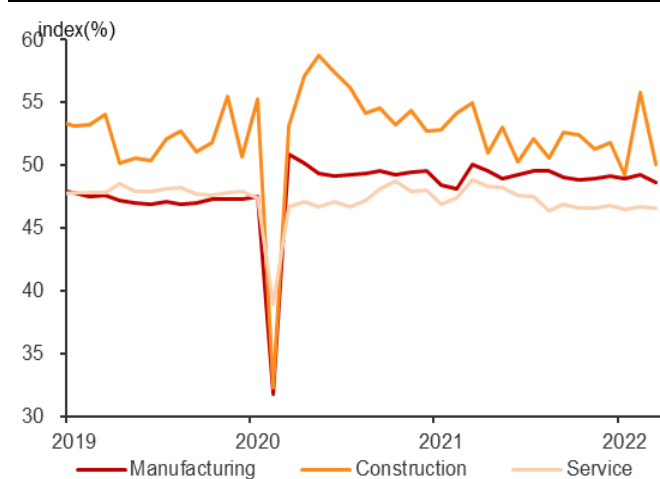
Source: NBS, CMBGM

Figure 9: Composite Output Index



Source: NBS, CMBGM

Figure 10: Employment Index



Source: NBS, CMBGM

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