

China Economy

PMI beat but recovery remains uneven

China's manufacturing PMI in Mar came in notably above market expectation at 50.8% after five months of contraction. Production index resumed expansion while demand improved as new orders and export orders significantly rebounded. Business procurement recovered while the de-stocking cycle and deflation pressure persisted. Service PMI improved while construction PMI continued to expand thanks to faster-than-expected fiscal budget execution. The expansion of PMI in Mar indicated economic activity may have surpassed expectation. GDP growth may exceed 5.5% in 1Q24, decreasing the likelihood of strong policy loosening in 2Q24. We don't think the recent report on the PBoC trading CGB meant the China version of QE. However, property market continued to slump while private business confidence remained weak, calling for additional targeted policy support. The policymakers may further lift home purchase restrictions in higher-tier cities with additional cuts in mortgage rates and down-payment ratios especially for first-home and second-home buyers. To boost private business confidence, top leaders may guide and coordinate policies towards the pro-business stance.

- Manufacturing activities came in notably above expectation.** China's manufacturing PMI in Mar significantly rebounded to 50.8%, above market expectation of 50.1%, from 49.1% in Feb after five months of contraction. Production index recovered to 52.2% from 49.8% as activities resumed after the CNY. Demand saw an inspiring improvement as new order and export order indexes jumped to 53% and 51.3% from 49% and 46.3% while existing order index improved to 47.6%. Material purchase volume and import orders also resumed expansion, indicating recovering corporate procurement. Both raw materials inventory and finished goods inventory remained in contraction but edged up from 47.4% and 47.9% to 48.1% and 48.9% in Mar, as enterprises slowed down on their de-stocking cycle. Breaking down by sector, business sentiment indexes in wood processing and furniture, transportation equipment and computer & electronic equipment reached above 55% in high prosperity interval. PMI of medium and small enterprises both expanded in Mar after 11 months of contraction while large enterprises inched up to 51.1%.
- Deflation pressure persisted amid fierce supply-side competition.** Factory price index dropped to 47.4% in Mar from 48.1% in Feb, while manufacturing material purchase price increased to 50.5% from 50.1%, indicating possibly smaller-than-expected MoM PPI growth in Mar. Service price index stayed in contraction and edged up to 48.7%, while construction price declined to 48.4% from 48.9%. Looking forward, China's CPI may return to positive in Mar while PPI may gradually narrow its decline due to the base effect and improving export activities.
- Service and construction sector both improved.** Non-manufacturing PMI accelerated to 53% from 51.4%. PMI in service rose to 52.4% in Mar from 51%. New order index increased to 47.2% from 46.7%. Breaking down by sector, activities in postal services, TV & broadcast, financial service and money market service reached above 55% while real estate, air transport and catering contracted as holiday boost-up demand faded. Construction PMI accelerated to 56.2% from 53.5%, as construction activities resumed and fiscal budget was executed faster than expected. Business sentiment indexes in construction and services both slightly improved.
- Employment remained sluggish.** Employment index in manufacturing slightly rebounded from 47.5% to 48.1% and remained in contraction. Employment in service and construction both declined from 46.9% and 47.6%

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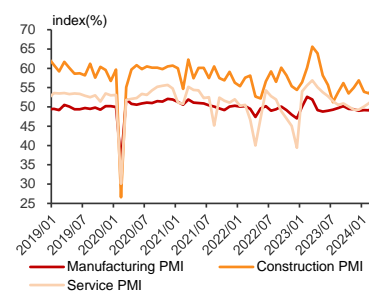
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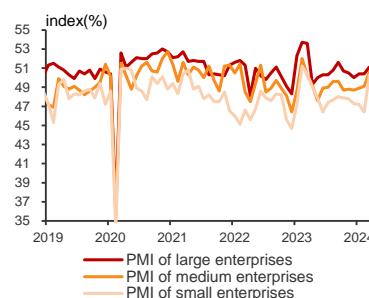
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Source: NBS, CMBIGM

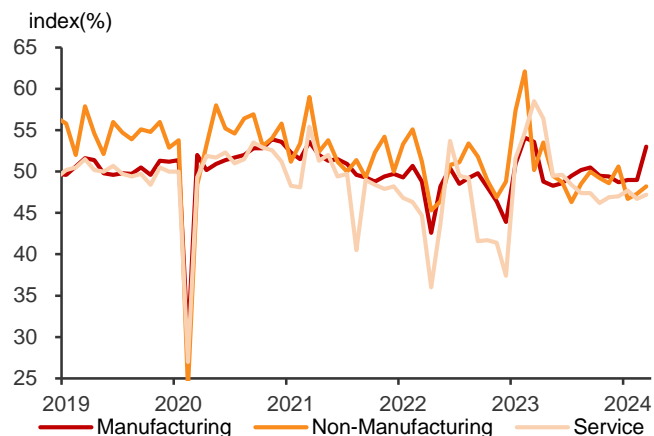


Source: NBS, CMBIGM

to 46.8% and 45.7%. The employment condition remained soft as industrial upgrades and technology advances in manufacturing and service industry required less labor intensity.

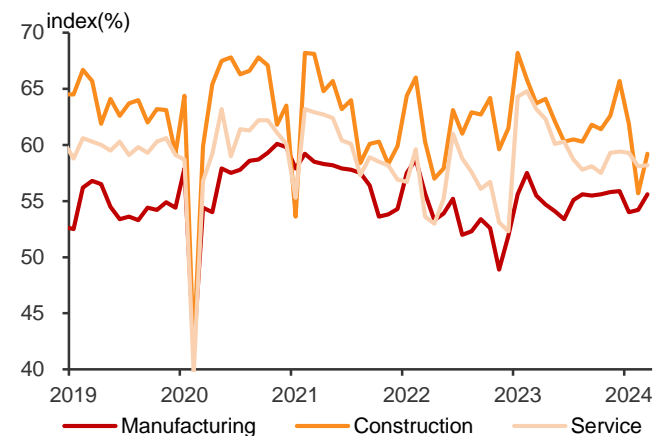
- **The recent economic data came in above expectations, but recovery remained uneven.** Economic data showed a recovery in early 2024 as consumption, exports and output activity surpassed expectations. GDP growth in 1Q24 may exceed 5.5% as the leap year effect (91 days in 1Q24 compared to 90 days in 1Q23) may have contributed over 1ppt to the growth. We see a decline in the likelihood of policy stimulus towards consumption and cuts in LPRs or RRR in 2Q24. We don't think the recent report on the PBoC trading CGB meant the China version of QE but view this as an expansion in its policy tools in OMO. The PBoC may maintain indirect management over RMB exchange rates, which should continue to restrain its interest rate policy room with a strong dollar. However, property market continued to slump while private business confidence remained weak, calling for additional targeted policy support. Policymakers may further lift home purchase restrictions in higher-tier cities with targeted cuts in mortgage rates and down-payment ratios especially for first-home and second-home buyers. To boost private business confidence, top leaders may guide and coordinate policies towards the pro-business stance.

Figure 1: New Order Index



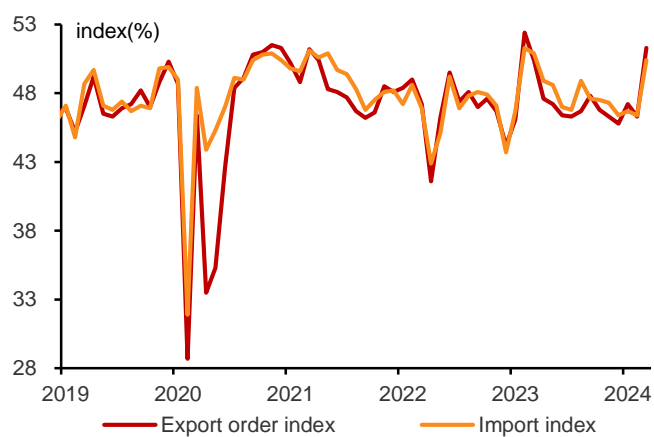
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index



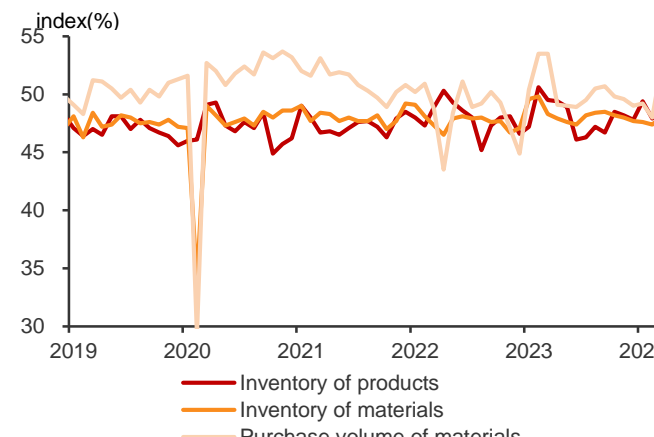
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index



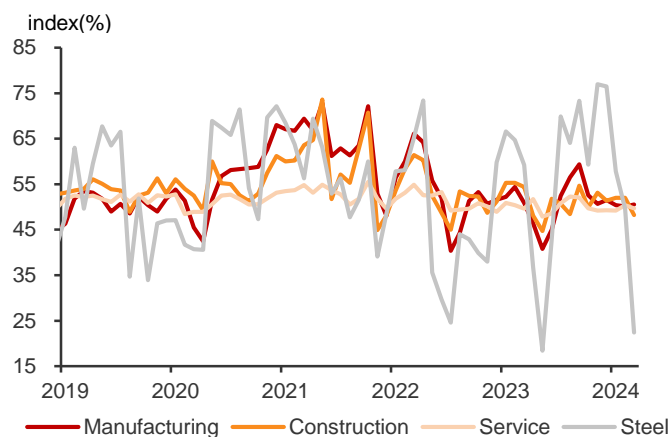
Source: Wind, CMBIGM

Figure 4: Inventory Index



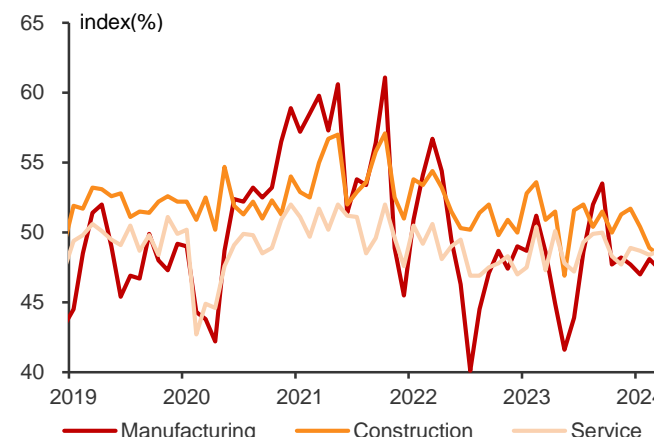
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index



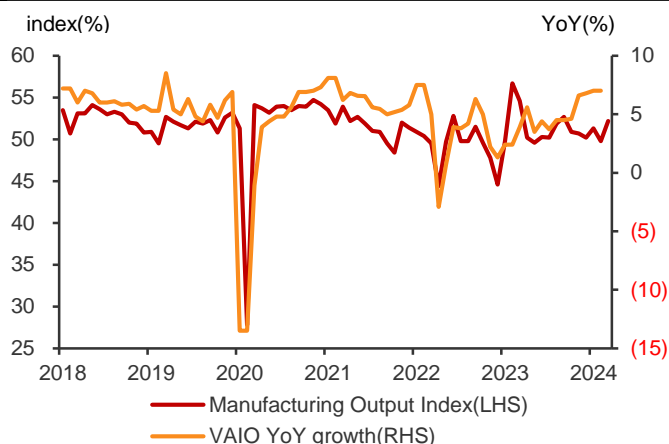
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index



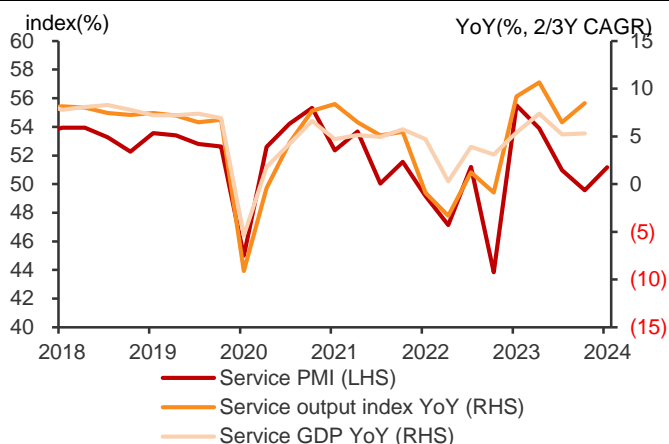
Source: Wind, CMBIGM

Figure 7: Manufacturing Output Index



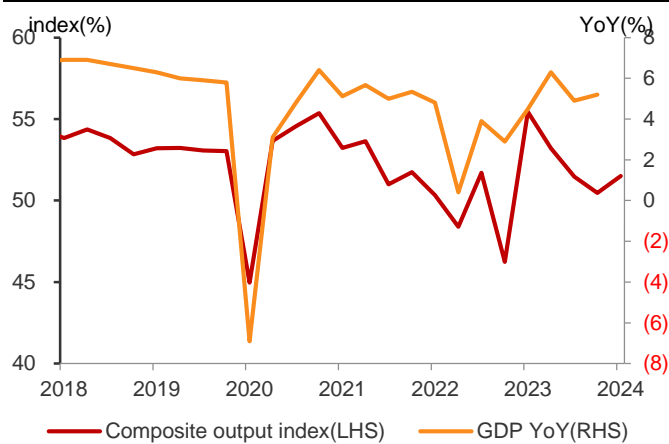
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index



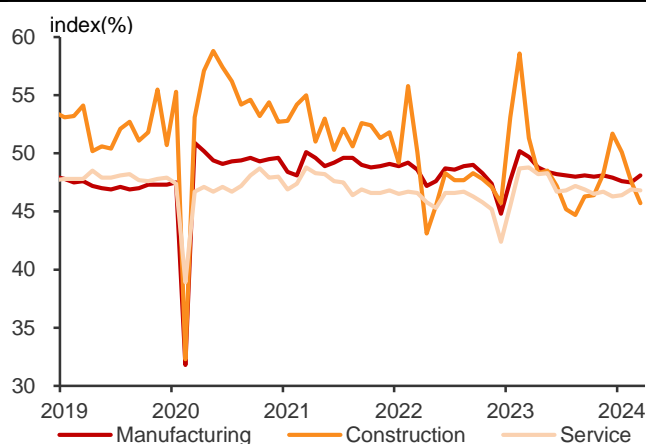
Source: Wind, CMBIGM

Figure 9: Composite Output Index



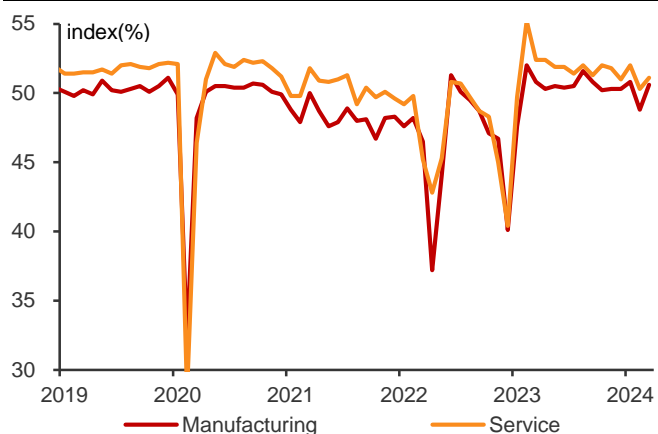
Source: Wind, CMBIGM

Figure 10: Employment Index



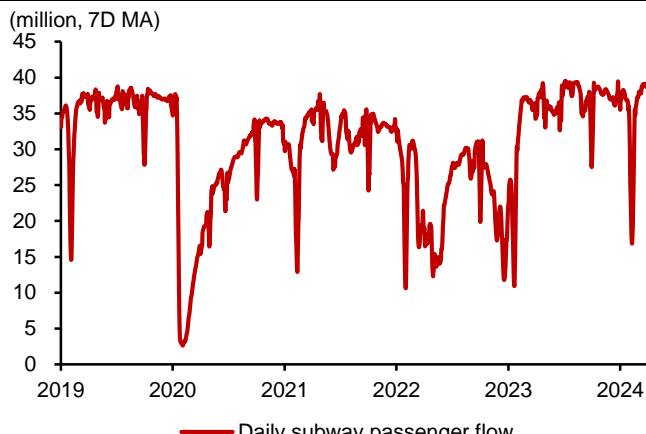
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index



Source: Wind, CMBIGM

Figure 12: Subway passenger flow in tier-1 cities



Source: Wind, CMBIGM

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