

China Economy

A sharp slump in April amid Covid-zero lockdowns

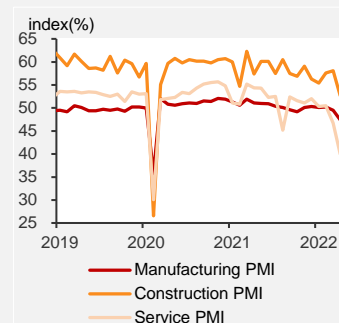
China's PMI slumped sharply in April as the Covid-zero lockdowns in Shanghai and other cities hurt demand and disrupted supply chains. New orders, business expectations, export orders, imports, material purchase, supply delivery and employment condition all deteriorated, while material costs remained high with some mild declines. We believe the worst time is over as the epidemic condition gradually improves and the policy support becomes stronger. The pace of improvement may be slow in next two months as China still struggles to seek a balance between Covid-zero control and economic resumption in near term. The second half year should see a stronger resumption as the country is better prepared for reopening and the balance further tilts towards the growth.

- **PMIs slumped to the lowest levels in more than two years.** PMI in manufacturing declined from 49.5% in March to 47.4% in April. The indexes in construction and service respectively dropped from 58.1% and 46.7% in March to 52.7% and 40% in April. The PMIs in April were still higher than the levels in February 2020 when the whole country was in lockdowns. But they dropped to the lowest levels in more than two years as Shanghai is the financial, business and foreign trade hub for China and the Yangtze River Delta region accounted for 25% and 37% in China's GDP and foreign trade flow.
- **The worst time is over but economic resumption needs some time.** China economy has seen the second downturn cycle since 2H21 due to the property deleveraging, tough regulation in some sectors and the epidemic resurgence. The epidemic and lockdowns in Shanghai and other cities possibly sent China's GDP growth to below 3% in April. We believe the worst time is over as the epidemic condition gradually improves from May and the recent politburo meeting signals stronger policy support to boost the growth. But the economic resumption needs some time as China still struggles to seek a balance between Covid-zero control and economic resumption. The second half year should see a stronger resumption as the country is better prepared for reopening and the balance further tilts towards the growth.
- **The April slump was widespread in demand, confidence, foreign trade, supply chains and employment condition.** Demand significantly deteriorated as new order index in manufacturing, construction and service respectively declined from 48.8%, 51.2% and 44.7% in March to 42.6%, 45.3% and 36% in April. Confidence further weakened as business expectations in the three sectors dropped from 55.7%, 60.3% and 53.6% in March to 53.3%, 57% and 53% in April. Foreign trade activity also slumped as export order index and import index respectively decreased from 47.2% and 46.9% in March to 41.6% and 42.9% in April. The supply delivery became far slower as the related indexes in manufacturing and service declined sharply from 46.5% and 45.2% in March to 37.2% and 42.8% in April. The employment indexes in manufacturing, construction and service respectively dropped from 48.6%, 50.1% and 46.6% in March to 47.2%, 43.1% and 45.8% in April.
- **Material costs & ex-factory prices remained high with mild declines.** Material cost indexes in manufacturing, construction & service declined from 66.1%, 61.4% and 54.9% in March to 64.2%, 60.3% and 52.6% in April. Ex-

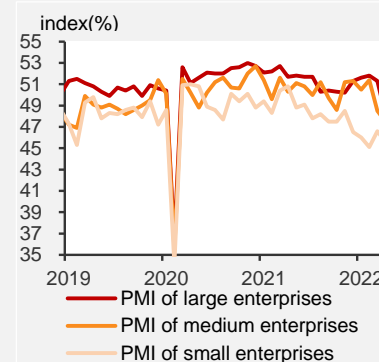
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Source: NBS, CMBIGM



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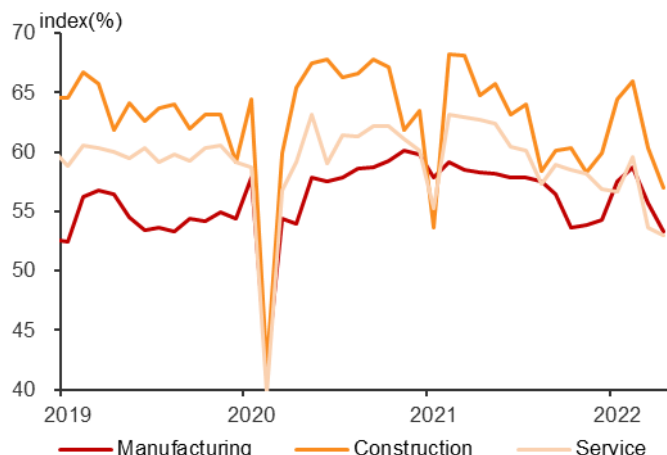
factory price indexes in the three sectors decreased from 56.7%, 54.4% and 50.6% in March to 54.4%, 53.2% and 48.1% in April. The epidemic and lockdowns have a mixed impact on the inflation as they hurt demand and disrupt supply as the same time. The impact should vary by sector. The April gauge in material costs and ex-factory prices points to a slowdown of PPI and service inflation in April.

Figure 1: New Order Index



Source: NBS, CMBIGM

Figure 2: Business Expectation Index



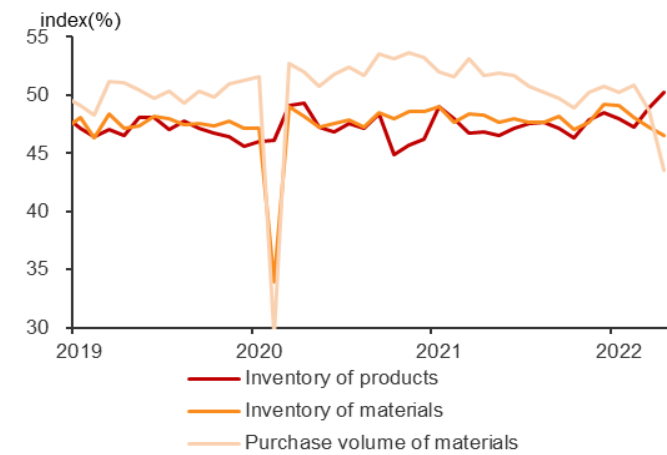
Source: NBS, CMBIGM

Figure 3: Export Order and Import Index



Source: NBS, CMBIGM

Figure 4: Inventory & Material Purchase Index



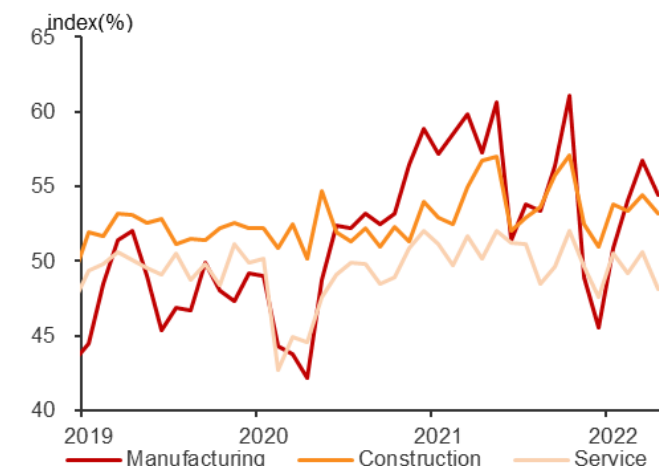
Source: NBS, CMBIGM

Figure 5: Material Cost Index



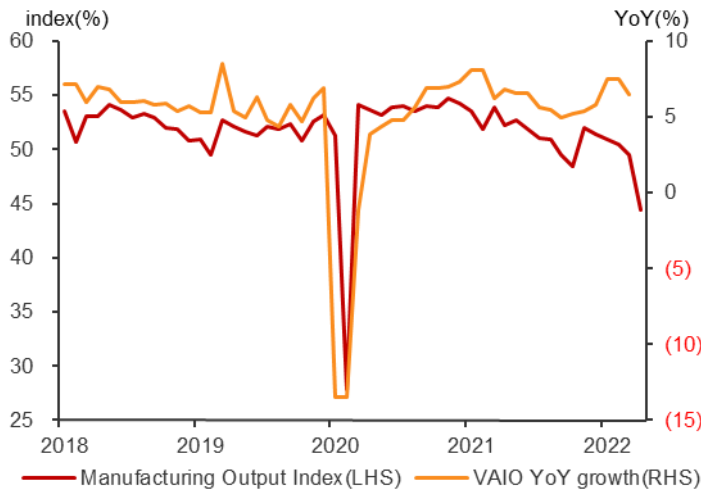
Source: NBS, CMBIGM

Figure 6: Ex-factory Price Index



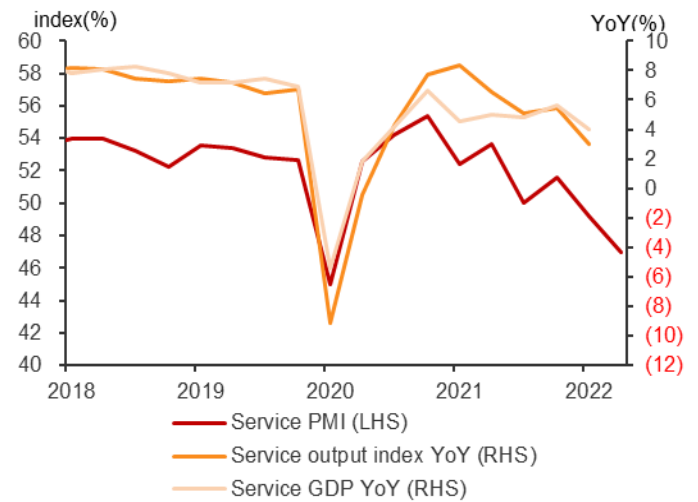
Source: NBS, CMBIGM

Figure 7: Manufacturing Output Index



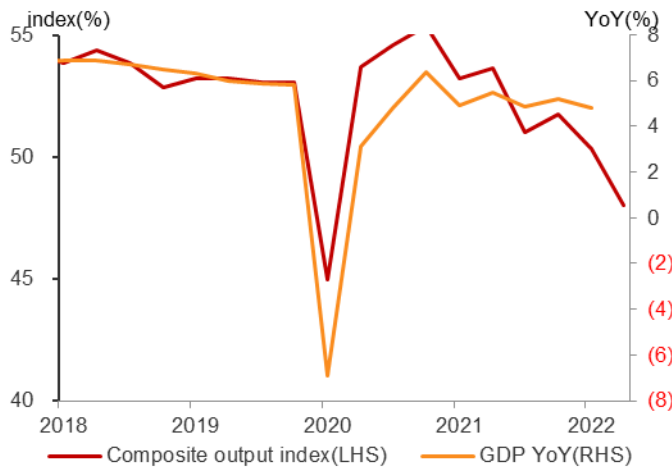
Source: NBS, CMBGM

Figure 8: Service Output Index



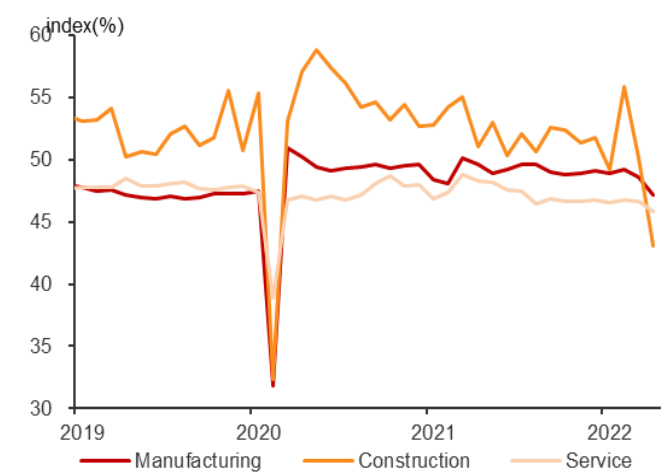
Source: NBS, CMBGM

Figure 9: Composite Output Index



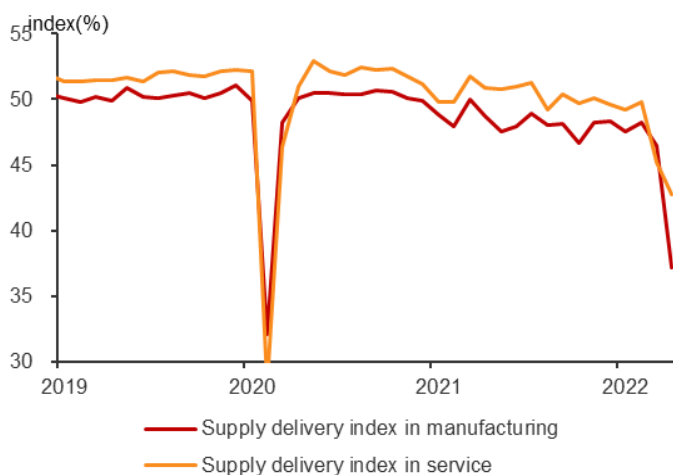
Source: NBS, CMBGM

Figure 10: Employment Index



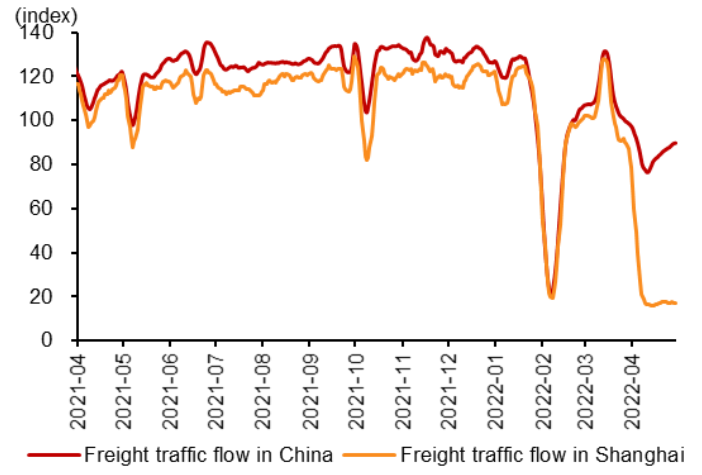
Source: NBS, CMBGM

Figure 11: Supply Delivery Index



Source: NBS, CMBGM

Figure 12: Freight Traffic Flow Index



Source: Wind, CMBGM

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