

# China Economy

## PMI indicates a slowdown in economic recovery

China's PMI in manufacturing declined to the contraction territory for the first time in four months as the factory activity started to cool down after three months of expansion. New order, export order and business expectations all declined in the manufacturing sector. However, service sector continued to see expansion with mild reflation as Chinese households spent more time and money on travel, catering, leisure and recreational service after China's reopening. China's reflation pressure remained low as ex-factory price index in manufacturing further declined in April. The employment condition remained weak as private business confidence was low. China has to maintain accommodative credit policy and pro-business stance to boost business sentiment and growth momentum.

- Manufacturing activity contracted in April for the first time in four months since China's reopening.** China's PMI in manufacturing dropped to 49.2% in April from 51.9% in March. For the first time in four months, it fell into the contraction territory, pointing to a slowdown of industrial output growth in April. Demand in manufacturing sharply slowed down as new order index dropped from 53.6% in March to 48.8% in April. Meanwhile, export order index and import index declined from 50.4% and 50.9% in March to 47.6% and 48.9% in April. By sector, business sentiment in agricultural product processing, food, beverage, liquor, general equipment, special equipment and electrical equipment was good while that in chemical fiber, rubber & plastic product and steel product was weak.
- Service sector maintained resilient recovery.** PMI in construction and service declined from 65.6% and 56.9% in March to 63.9% and 55.1% in April, still in the expansionary territory. Both new order and business sentiment further improved in construction. For service sector, both new order and business sentiment remained high as service consumption and activity continued to recover. In April, railway transportation, air transportation, accommodation, telecom service, TV, sports, cultural & recreational service all maintained strong recovery as their PMIs remained above 60%. However, real estate and residential service was weak as their business activity indexes were below 50%.
- Reflation pressure was low as ex-factory price indexes further declined.** Ex-factory price indexes in manufacturing fell from 48.6% in March to 44.9% in April, indicating a further decline of producer price index (PPI). The inventory level in manufacturing further dropped in April as product inventory index and material inventory index respectively declined from 49.5% and 48.3% in March to 49.4% and 47.9% in April. The purchasing price index also decreased sharply as purchase demand remained weak. However, service sector saw a mild reflation as the ex-factory price index in service rose from 47.3% in March to 50.1% in April. Looking forward, the reflation pressure should be manageable in China as the GDP growth remains below the potential growth with negative output gap in the country. China has to maintain accommodative credit policy to boost the growth momentum.
- Employment condition remained weak as China needs to boost private business sentiment.** Employment index in manufacturing, construction and service fell to 48.8%, 48.3% and 48.2% in April from 49.7%, 51.3% and 48.8%

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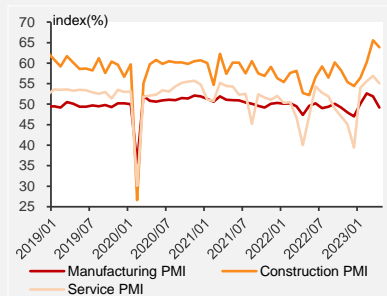
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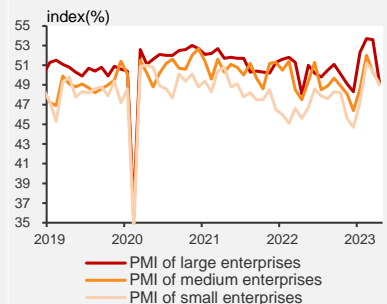
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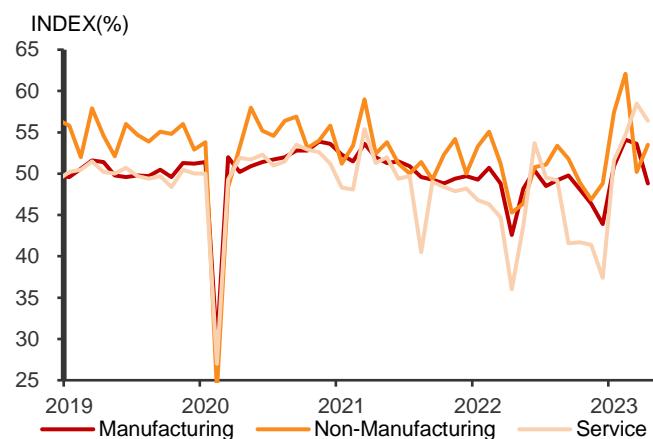
Source: NBS, CMBIGM



Source: NBS, CMBIGM

in March. The employment condition for the youth and fresh grads was not good as the unemployment rates for the workers aged 16-24 further rose from 17.2% in 4Q22 to 18.3% in 1Q23. The weak employment condition was mainly due to low confidence in private business community as private enterprises accounted for over 80% in total employment in China. The employment condition will determine China's consumption recovery pace by influencing consumer income and confidence. China has to boost private business confidence to improve the employment condition and consumption recovery.

**Figure 1: New Order Index**



Source: WIND, CMBIGM

**Figure 2: Business Sentiment Index**



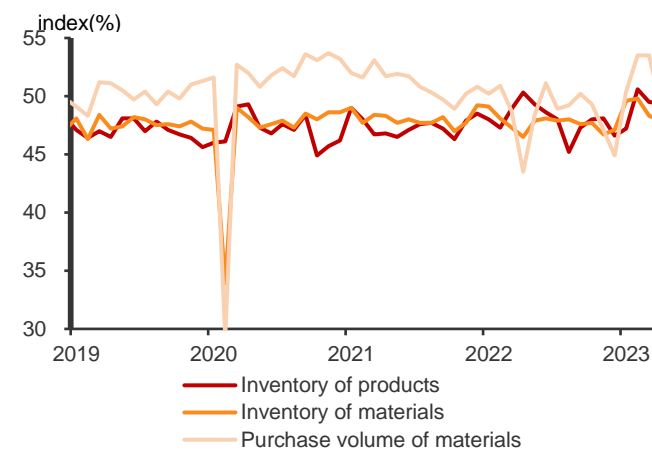
Source: WIND, CMBIGM

**Figure 3: Export Order Index and Import Index**



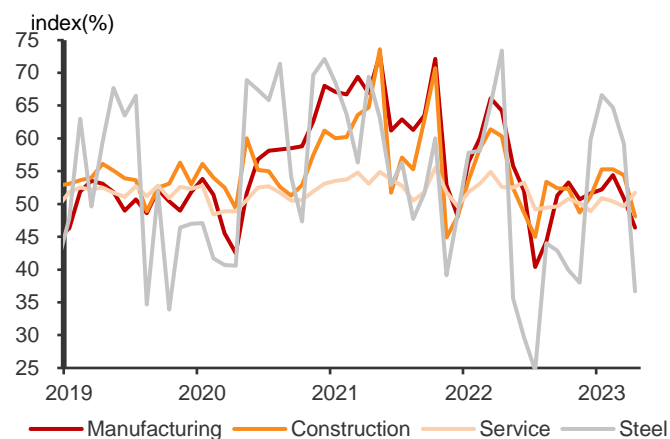
Source: WIND, CMBIGM

**Figure 4: Inventory Index**



Source: WIND, CMBIGM

**Figure 5: Material Purchase Price Index**



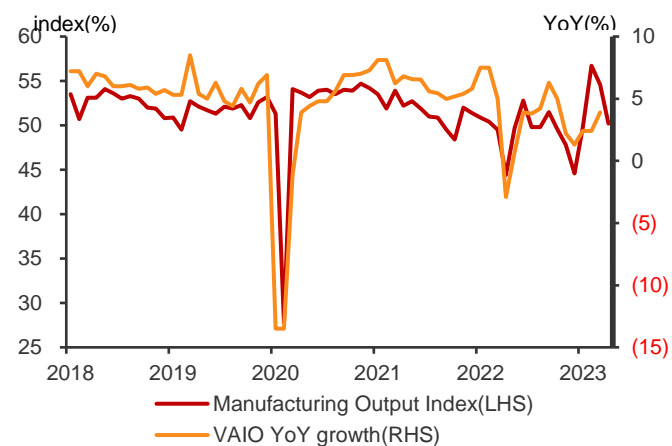
Source: WIND, CMBIGM

**Figure 6: Ex-factory Price Index**



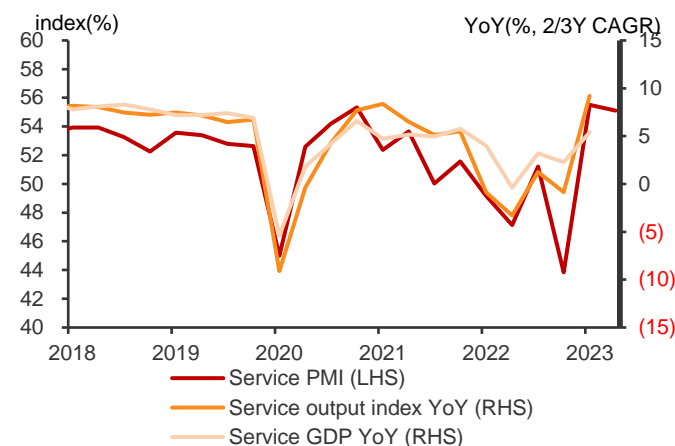
Source: WIND, CMBIGM

**Figure 7: Manufacturing Output Index**



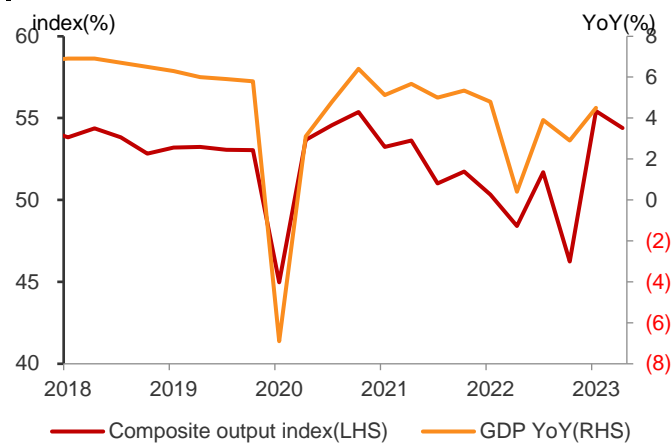
Source: WIND, CMBGM

**Figure 8: Service PMI & Output Index**



Source: WIND, CMBGM

**Figure 9: Composite Output Index**



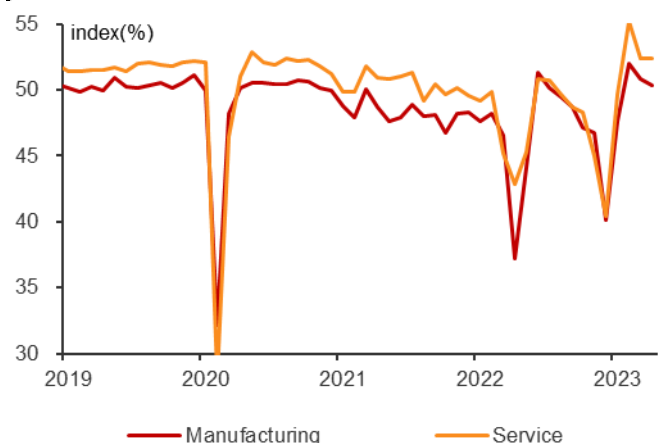
Source: WIND, CMBGM

**Figure 10: Employment Index**



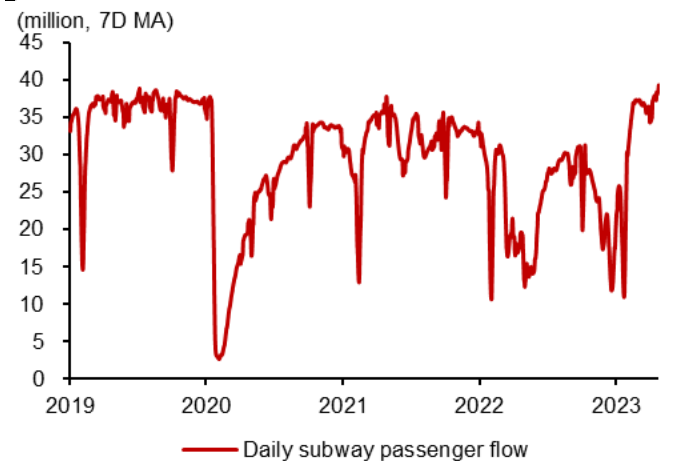
Source: WIND, CMBGM

**Figure 11: Supply Delivery Index**



Source: WIND, CMBGM

**Figure 12: Subway Passenger Flow in Tier-1 Cities**



Source: WIND, CMBGM

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