

# China Economics

## PMI slid yet business expectations rebounded

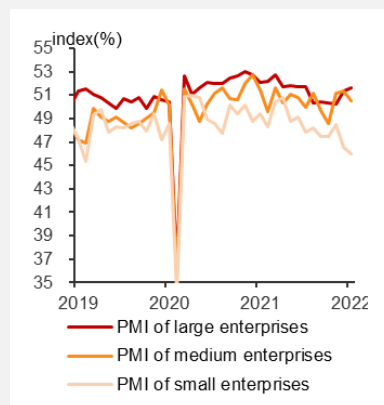
China's manufacturing PMI slid in January 2022, in line with expectations. PMI in construction and service also declined as the property market stress and virus resurgence hurt the two sectors. But business expectations in manufacturing and construction sharply rebounded as the policy easing may have started to boost business confidence. Material costs and ex-factory prices also rebounded, indicating a probable pick-up of MoM growth in PPI and CPI in January. We expect China will continue to show its determination to boost growth after the Chinese New Year holiday. We are likely to see further easing of liquidity and credit supply, additional fiscal support and more friendly policy towards private sector including the internet sector. We maintain our forecast that China economy may bottom out from 2Q22.

- **PMI declined pointing to a slowdown of GDP growth in January.** Manufacturing PMI slightly declined from 50.3% in December 2021 to 50.1% in January 2022. Meanwhile, construction PMI dropped from 56.3% to 55.4% as stressed condition of property developers continued to hurt development investment and related construction activity. Service PMI saw the most significant decline from 52% to 50.3%, as the resurgence of Covid-19 virus with the zero-covid strategy hurt population mobility and service activity.
- **Manufacturing & construction business expectations rebounded.** Business expectation index in manufacturing sharply rebounded from 54.3% in December 2021 to 57.5% in January 2022. Export order index also picked up as the global pandemic of Omicron further boosted China's exports. China provided more tax credit for manufacturers and urged banks to expand credit supply to manufacturers. For construction sector, both business expectation index and new order index sharply rebounded in January. China's policy easing might have started to take effect as the government accelerated bond issuance and investment project start and the central bank urged banks to stabilize credit growth in property sector.
- **Service business expectations remained weak amid the virus impact.** Service business expectation index slightly declined from 56.9% in December 2021 to 56.7% in January 2022. New order index in service sector dropped to the lowest level since March 2021. Although the Chinese New Year holiday may temporarily boost some service activities in February, service business may continue to feel the pain if the virus condition does not improve.
- **Material costs & ex-factory prices rebounded.** Manufacturing, construction and service sectors all saw a pick-up of material costs and ex-factory prices in January. It indicates the MoM growth of producer price index (PPI) and service consumer price index (CPI) may significantly rebound in January.
- **China economy may gradually bottom out from 2Q22 amid policy support.** The Chinese policymakers shift their focus to growth and employment stability in 2022. Due to the virus resurgence, the winter season and the Olympics, the policy intensity at the year beginning was below market expectations. But we expect China will continue to show its determination to stabilize economic growth after the Chinese New Year holiday. We will see further easing of liquidity and credit supply, additional fiscal policy support and more friendly policy towards private sector including the internet sector.

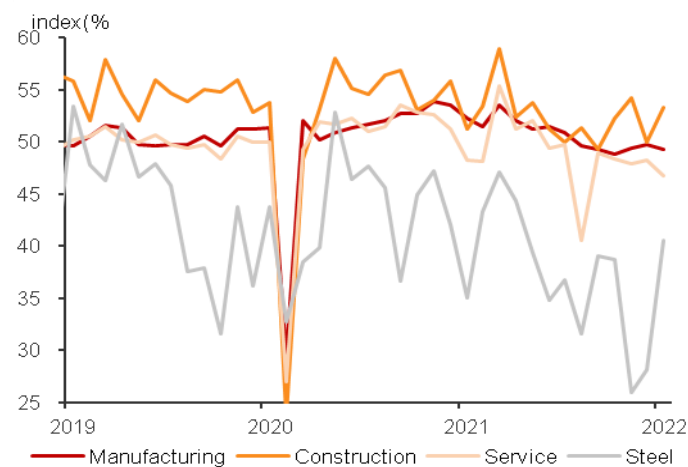
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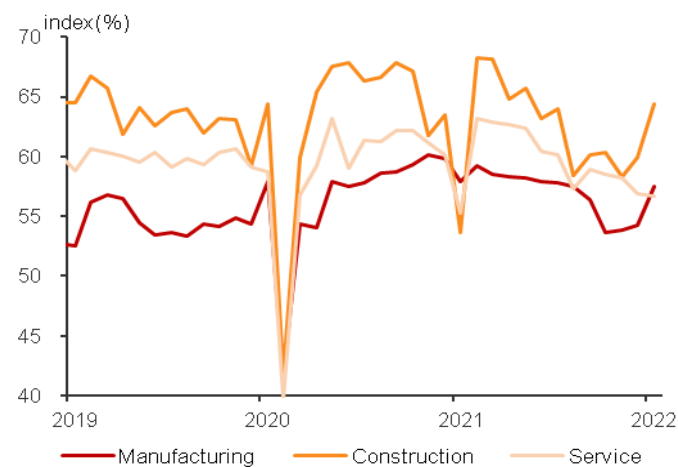


**Figure 1: New Order Index**



Source: NBS, CMBIS

**Figure 2: Business Expectation Index**



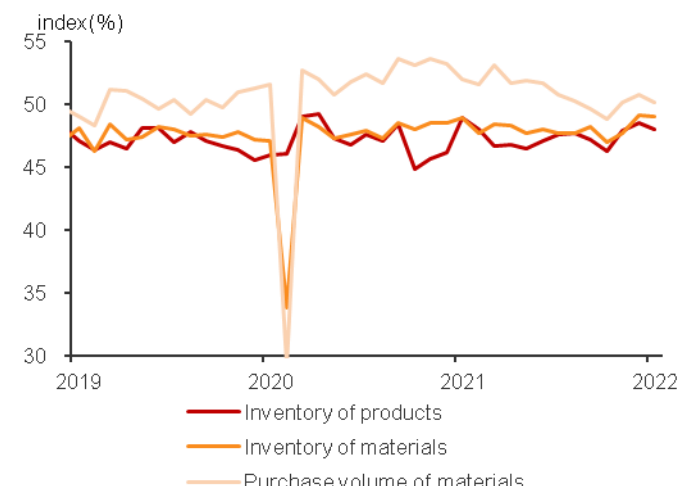
Source: NBS, CMBIS

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



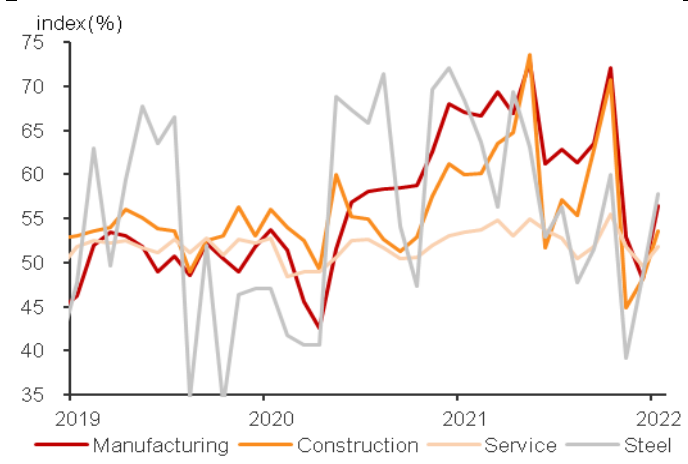
Source: NBS, CMBIS

**Figure 4: Inventory & Material Purchase Index**



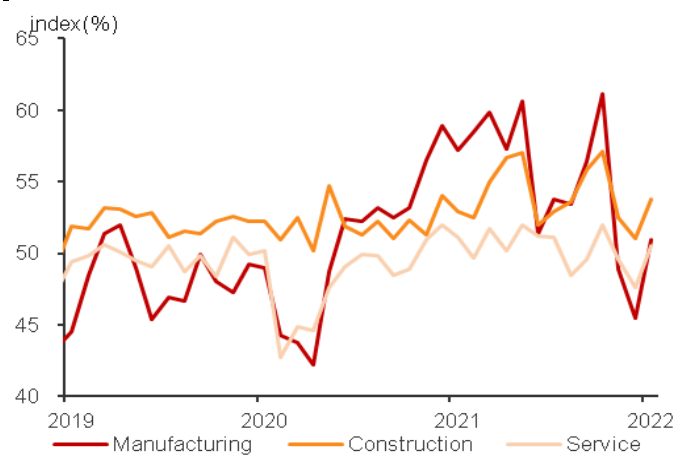
Source: NBS, CMBIS

**Figure 5: Material Cost Index**



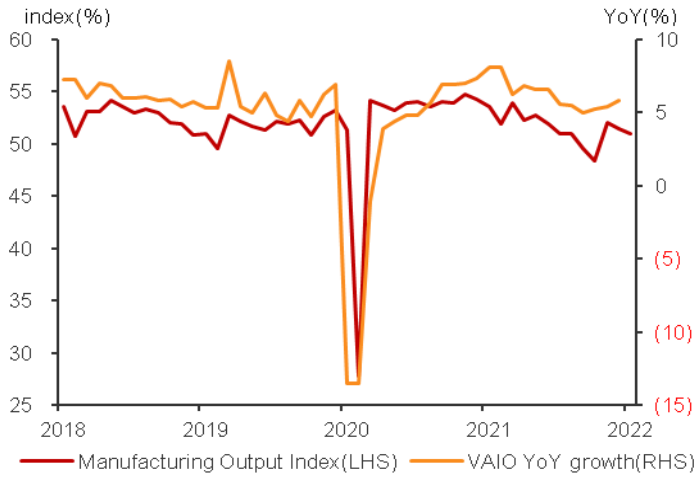
Source: NBS, CMBIS

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



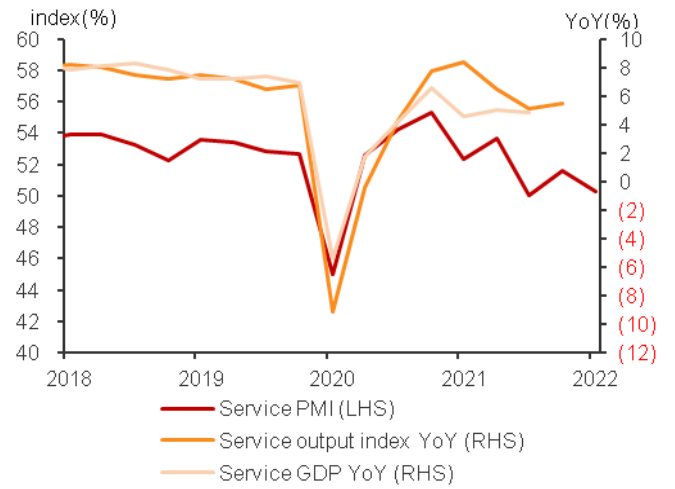
Source: NBS, CMBIS

**Figure 7: Manufacturing Output Index**



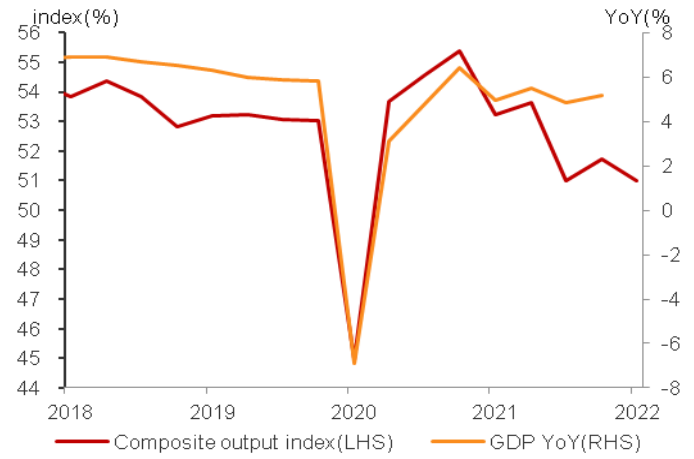
Source: NBS, CMBIS

**Figure 8: Service Output Index**



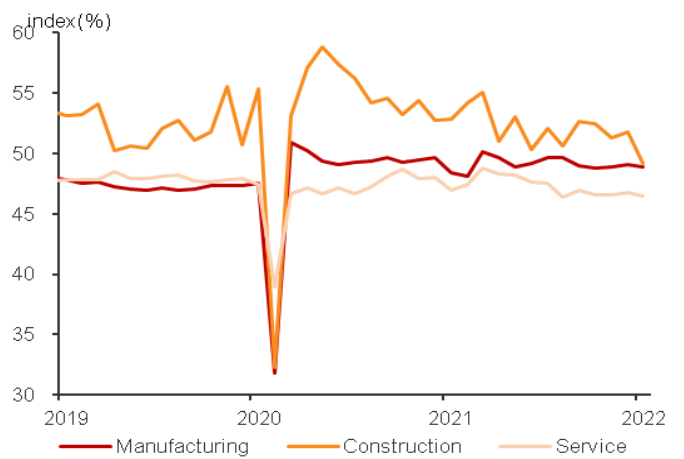
Source: NBS, CMBIS

**Figure 9: Composite Output Index**



Source: NBS, CMBIS

**Figure 10: Employment Index**



Source: NBS, CMBIS

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