

China Economics

PMI slightly rose with confidence improvement

China's manufacturing PMI slightly rose in February 2022, in line with expectations. PMI in construction significantly improved as policy easing started to boost infrastructure projects. PMI in service mildly climbed, with business activity still restrained by the Covid-19 virus. New order in manufacturing and construction continued to increase, while that in service further declined. Business expectation improved in manufacturing, construction and service sectors, as tax cut and credit easing boosted business confidence. Material costs and ex-factory prices further rebounded, indicating a probable pick-up of commodity prices in February. In face of the external shock related to the Russia-Ukraine tensions, Chinese policymakers would inject more liquidity supply and increase policy support to boost confidence and stabilize growth. We expect China economy may bottom out from 2Q22.

- PMI pointed to a possible slowdown of GDP growth in 1Q22.** Despite an improvement in February, PMI in construction & service respectively declined from 57.4% and 51.6% in 4Q21 to 56.5% and 50.4% in 2M22. The composite output index decreased from 51.7% in 4Q21 to 51% in 1Q22, pointing to a possible slowdown of GDP growth. Industrial output growth should remain stable amid strong exports, as PMI in manufacturing rose from 49.9% in 4Q21 to 50.2% in 1Q22.
- New order rebounded in manufacturing & construction, but declined in service.** New order index in manufacturing & construction respectively rose from 49.3% and 53.3% in January to 50.7% and 55.1% in February, indicating demand improvement in the two sectors. Export order index and import index also rebounded, indicating stable growth of exports and imports in near term. But new order index in service declined from 48.2% in January to 46.3% in February, as the Covid-19 virus continued to restrain service business.
- Business expectation improved as supportive policy boosted confidence.** Business expectation index in manufacturing, construction & service sharply noticeably rebounded from 57.5%, 64.4% and 56.7% in January to 58.7%, 66% and 59.6% in February. China's gradual policy easing seemed to boost business confidence, although we need more time to see a stabilization of growth.
- Material costs sharply rebounded.** Material cost index in manufacturing, construction & service respectively rose from 56.4%, 53.6% and 51.8% in January to 60%, 58.4% and 53.1% in February. Ex-factory price index in manufacturing also sharply rebounded from 50.9% to 54.1%, indicating a probable pick-up of the MoM growth of producer price index (PPI) in February. But service price index declined, indicating weak demand in the sector.
- China economy may gradually bottom out from 2Q22 with continuing policy easing.** The policymakers have called for strong policy to boost growth recently, indicating continuing liquidity and credit easing after the National People's Congress (NPC) meeting. China would take efforts to stabilize the real estate market and boost the resumption of service sector. China economy may gradually bottom out from 2Q22.

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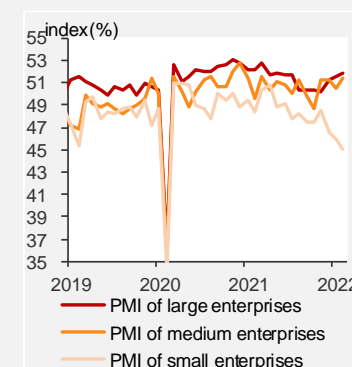
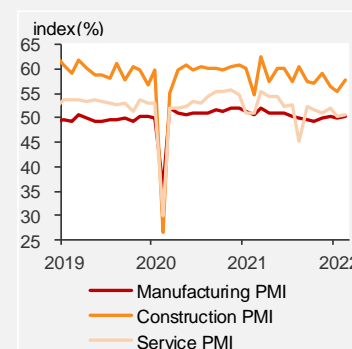
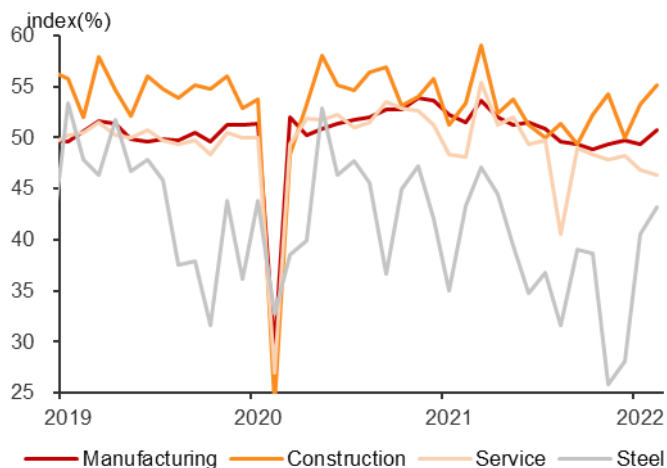


Figure 1: New Order Index



Source: NBS, CMBIGM

Figure 2: Business Expectation Index



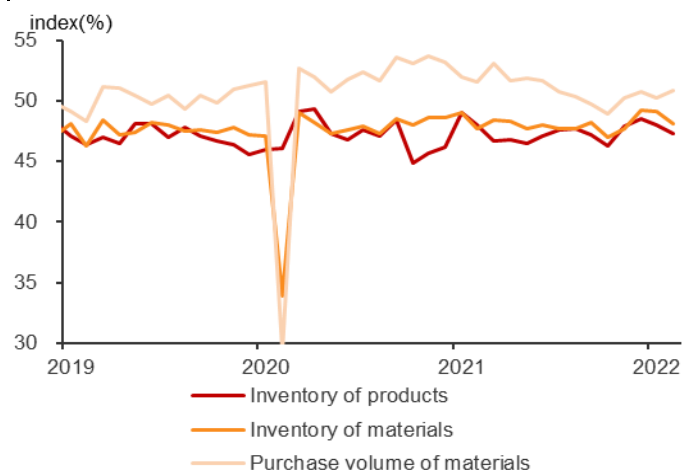
Source: NBS, CMBIGM

Figure 3: Export Order and Import Index



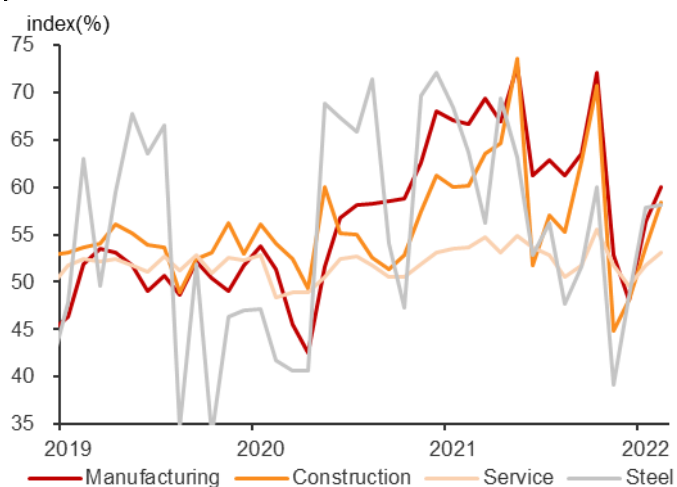
Source: NBS, CMBIGM

Figure 4: Inventory & Material Purchase Index



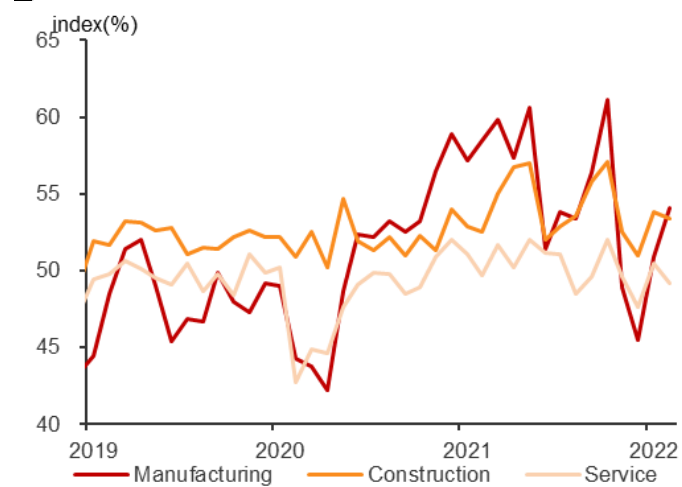
Source: NBS, CMBIGM

Figure 5: Material Cost Index



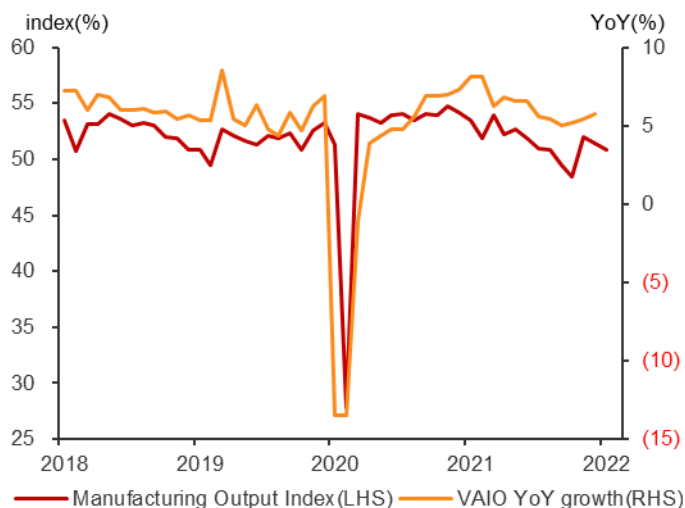
Source: NBS, CMBIGM

Figure 6: Ex-factory Price Index



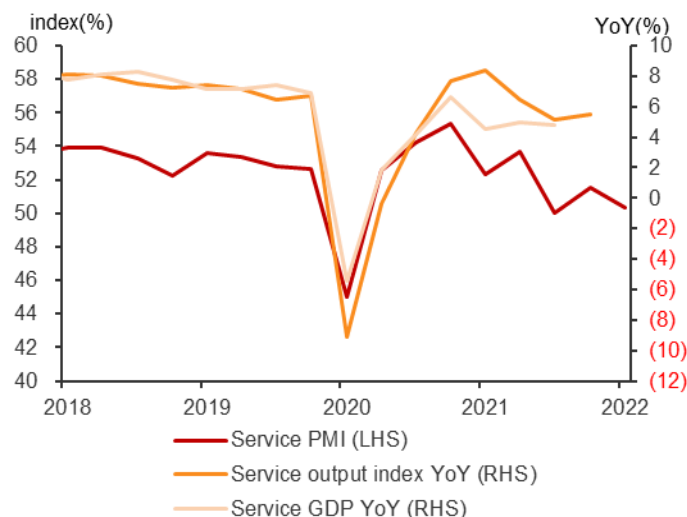
Source: NBS, CMBIGM

Figure 7: Manufacturing Output Index



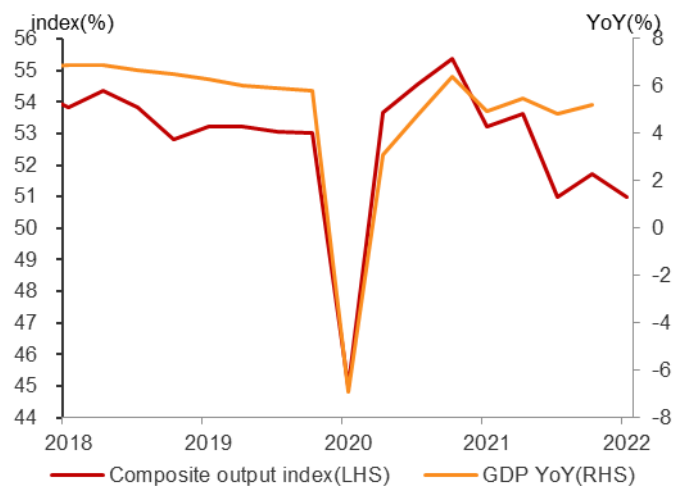
Source: NBS, CMBGM

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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