

China Economy

In the resumption amid reopening & policy easing

China's PMI rebounded in June as the reopening and policy easing supported a strong MoM improvement in business activities from Shanghai lockdowns in April-May. Condition widely improved in demand, supply chain, confidence, foreign trade & employment, while material cost & industrial inflation declined. By sectors, auto, general equipment, special equipment, computer, telecom equipment & electronic equipment, railway transportation, air transportation, accommodation & catering service, cultural service, and sports & recreation service saw significant improvement in supply chain and demand condition. Looking forward, China's economy should be in the resumption cycle in 2H22-1H23 with GDP growth up from 3.4% in 2022 to 6.5% in 2023.

- PMIs jumped to above 50% indicating economic resumption.** PMIs in manufacturing, construction and service respectively rose from 49.6%, 52.2% and 47.1% in May to 50.2%, 56.6% and 54.3% in June. It was the first time since March for manufacturing PMI transcending 50%, indicating an expansion of output compared with May amid factory restart. Service PMI reached 13-month high as the lockdowns in April-May and the reopening in June supported a strong MoM improvement in business activities.
- Condition widely improved in demand, supply chain, confidence, foreign trade & employment.** New order index in manufacturing, construction and service respectively increased from 48.2%, 46.4% and 43.7% in May to 50.4%, 50.8% and 53.7% in June. Supply delivery index in manufacturing and service rose significantly from 44.1% and 45.3% in May to 51.3% and 50.8% in June. Business expectation index in manufacturing, construction and service respectively climbed from 53.9%, 57.9% and 55.2% in May to 55.2%, 63.1% and 61% in June. Foreign trade and employment indices also improved, but were still in a contraction. Specifically, export order index and import index reached 49.5% and 49.2% in June, compared to 46.2% and 45.1% in May. Employment index in manufacturing, construction and service rose to 48.7%, 48.3% and 46.6% in June from 47.6%, 45.5% and 45.3% in May.
- Material & industrial inflation declined while service price resumed mildly.** Material cost index in manufacturing & construction declined from 55.8% and 52.4% in May to 52% and 48.7% in June, but the cost index in service slightly rose from 52.5% to 53.3% amid the reopening effect. The ex-factory price index in manufacturing & construction dropped to 46.3% and 50.3% in June from 49.5% and 51.5% in May. However, the price index in service rose from 49% in May to 49.5% in June.
- China's economy will be in the resumption cycle in 2H22-1H23 with GDP growth up from 3.4% in 2022 to 6.5% in 2023.** China's economy slowed in 2H21-1H22 due to liquidity tightening, property deleveraging, tough regulation and epidemic resurgence. The worst period was in April when severe lockdowns in Shanghai and other cities caused sharp YoY declines of retail sales and service output index. With policy easing and gradual reopening, China's economy will be in the resumption cycle in 2H22-1H23. We expect the GDP growth may rise from around 0% in 2Q22 to 4% in 3Q22 and 4.8% in 4Q22 with the full-year growth up from 3.4% in 2022 to 6.5% in 2023.

Bingnan YE, Ph.D

(852) 3761 8967

yingbingnan@cmbi.com.hk

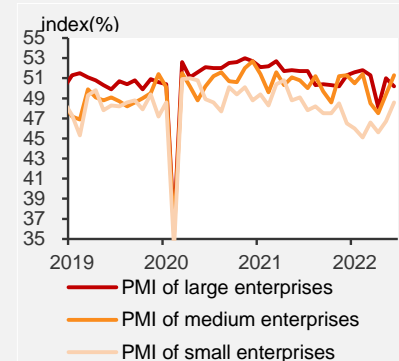
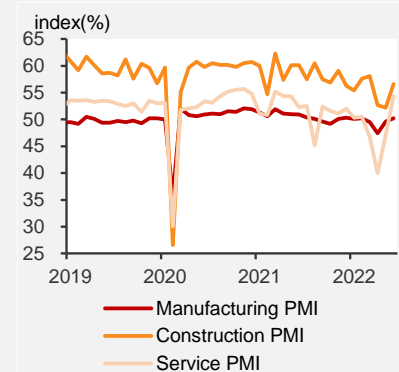
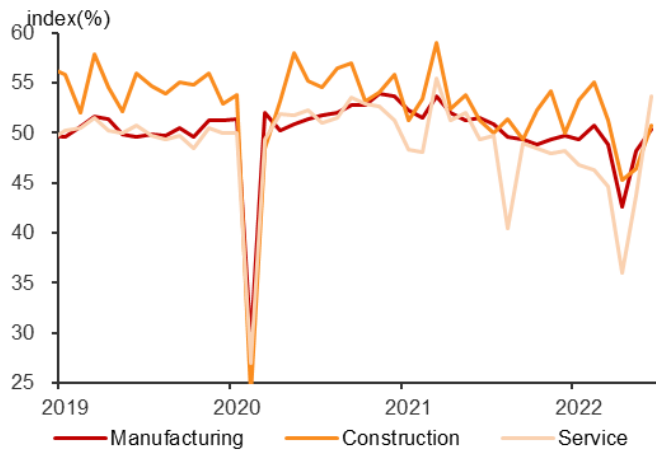
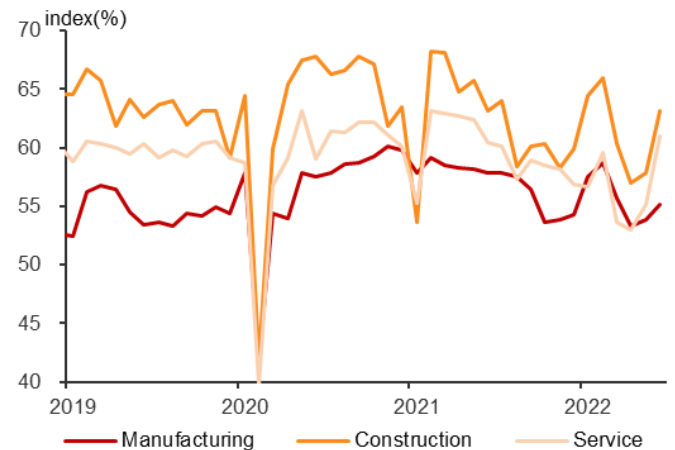


Figure 1: New Order Index



Source: NBS, CMBIGM

Figure 2: Business Expectation Index



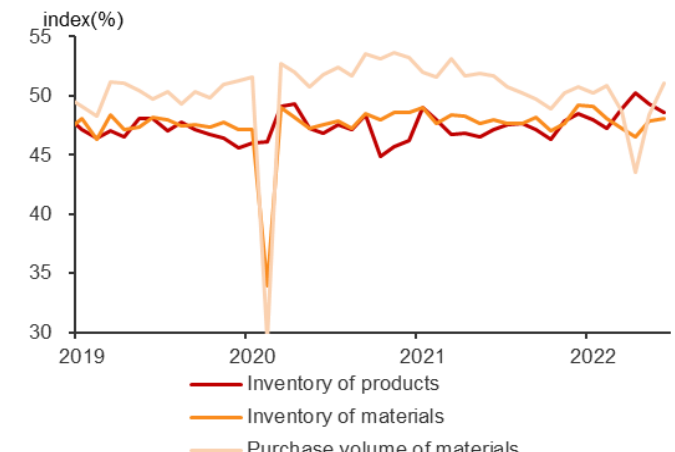
Source: NBS, CMBIGM

Figure 3: Export Order and Import Index



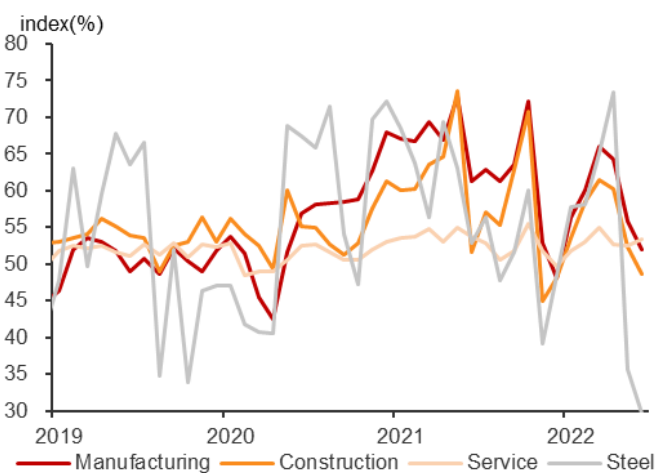
Source: NBS, CMBIGM

Figure 4: Inventory & Material Purchase Index



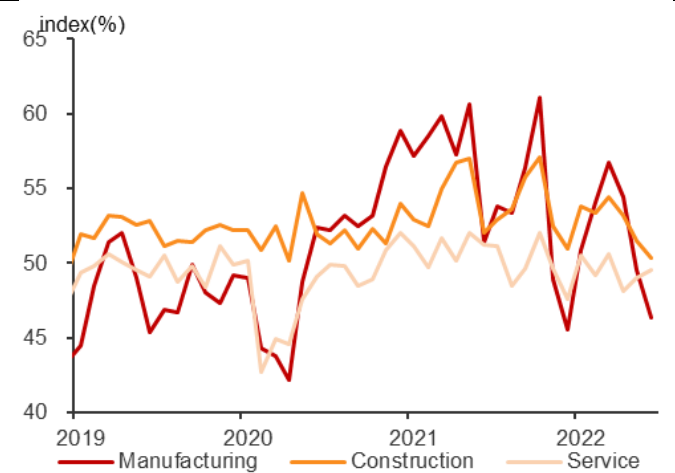
Source: NBS, CMBIGM

Figure 5: Material Cost Index



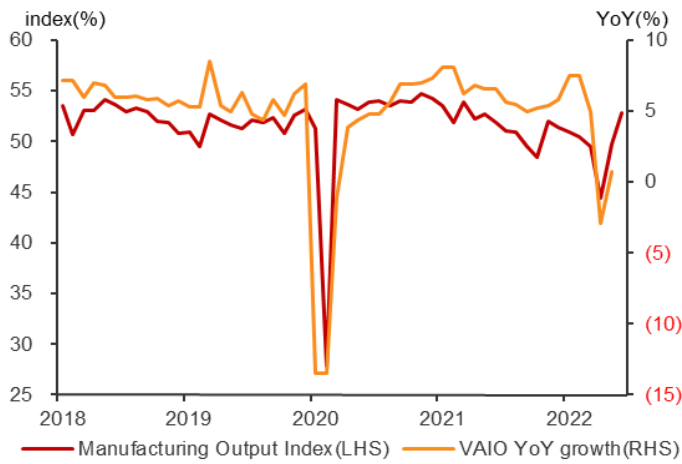
Source: NBS, CMBIGM

Figure 6: Ex-factory Price Index



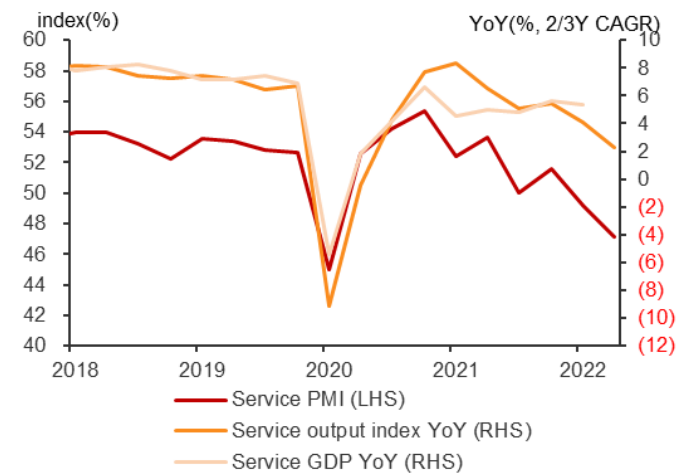
Source: NBS, CMBIGM

Figure 7: Manufacturing Output Index



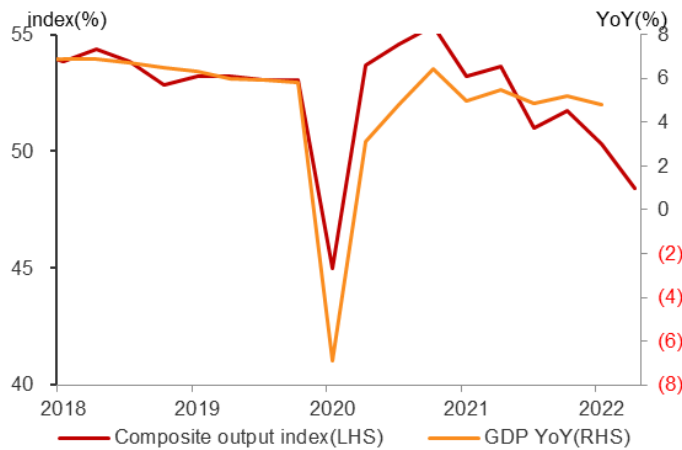
Source: NBS, CMBGM

Figure 8: Service Output Index



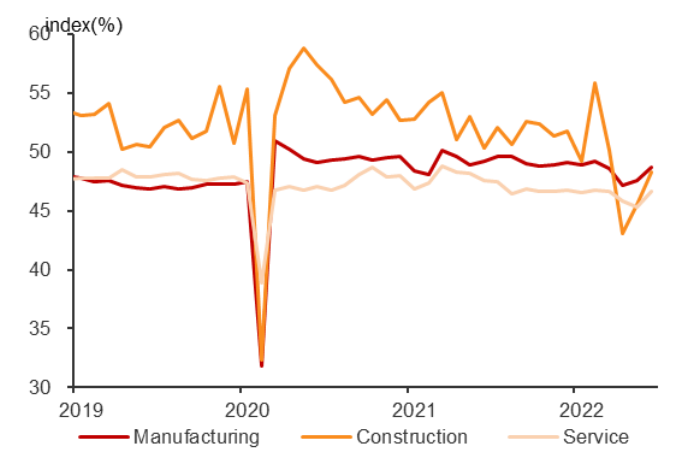
Source: NBS, CMBGM

Figure 9: Composite Output Index



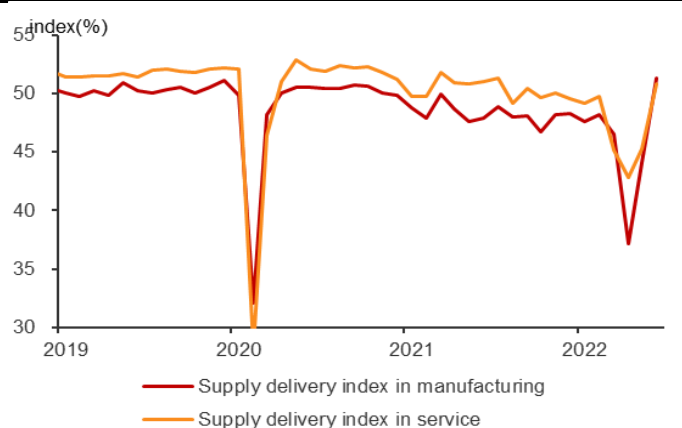
Source: NBS, CMBGM

Figure 10: Employment Index



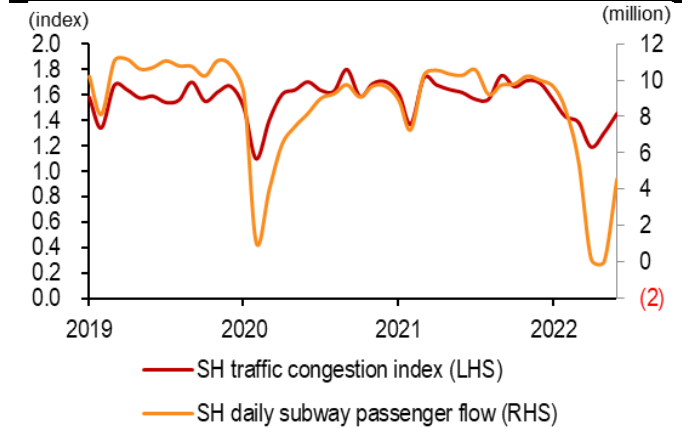
Source: NBS, CMBGM

Figure 11: Supply Delivery Index



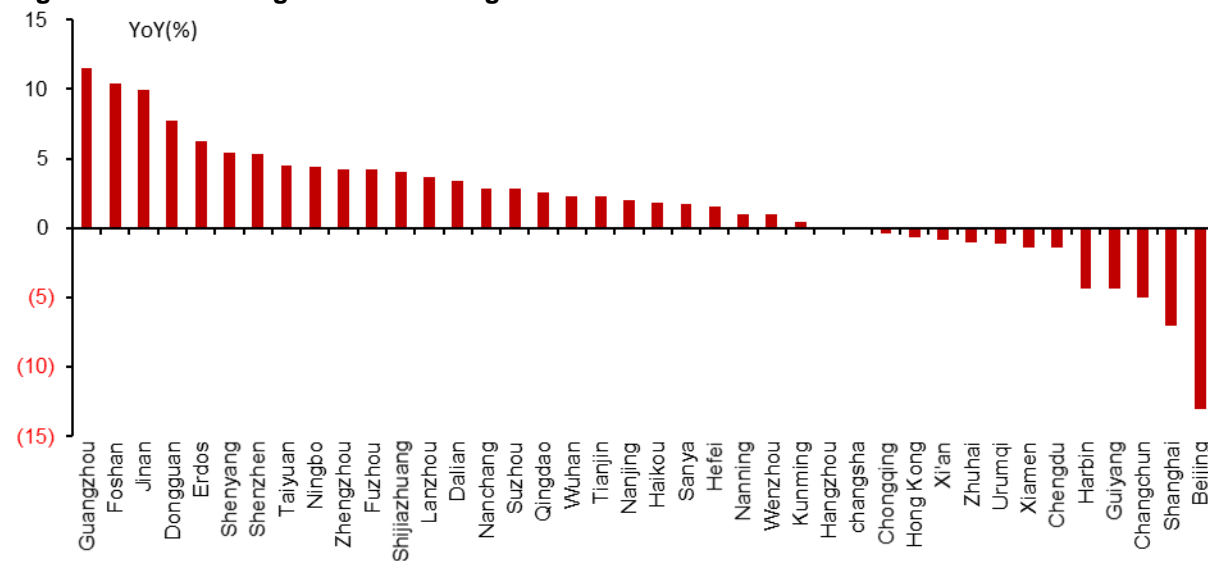
Source: NBS, CMBGM

Figure 12: Traffic Flow Index in Shanghai



Source: Wind, CMBGM

Figure 13: YoY Change of Traffic Congestion Index



Source: Wind, CMBIGM

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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