
CHINA ECONOMICS RAPID RESPONSE

PMIs (Feb.)

 1st March 2023

A very rapid rebound

The latest survey data is exceptionally strong, consistent with our expectation for a rapid near-term rebound in economic activity.

The Caixin manufacturing PMI rose from 49.2 in January to 51.6 in February (the Bloomberg consensus was 51.3 and our forecast was 51.0). The official survey also beat expectations, jumping from 50.1 to a decade-high of 52.6 (Bloomberg: 50.7, CE: 51.5).

Averaging across both surveys, the headline index rose from 49.6 to 52.1, its strongest since late 2020. The biggest improvement was in the output component, which jumped from 49.4 to 53.3. This partly reflects waning supply-side disruption from the reopening wave of infections – labour shortages eased, with the employment component rising above 50 for the first time since mid-2021, and supplier delivery times shortened at the fastest pace in 13 years. But demand is also picking up – new orders jumped from 50.1 to 53.5. This was mostly due to the domestic recovery. But new export orders also rose above 50 for the first time in eight months, hinting at a possible turnaround in foreign demand.

The Caixin services PMI won't be released until Friday, but the official non-manufacturing PMI also published today strengthened from 54.4 to 56.3, its highest since early 2021 (Bloomberg & CE: 55.0). This was mostly due to a further rise in the services index from 54.0 to 55.6, with the press release noting that the transportation and accommodation sectors saw the biggest improvements. But the construction index also jumped, from 56.4 to 60.2, most likely due to the recent ramp up in special bond issuance and the resulting boost to infrastructure spending.

The high PMI readings partly reflect the economy's weak starting point coming into this year and are likely to drop back before long as the pace of the recovery slows. Nonetheless, they underscore just how quickly activity has bounced back following the reopening wave of infections. We had already been expecting a rapid near-term rebound, but the latest data suggest that even our above-consensus forecasts for growth of 5.5% this year may prove too conservative.

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