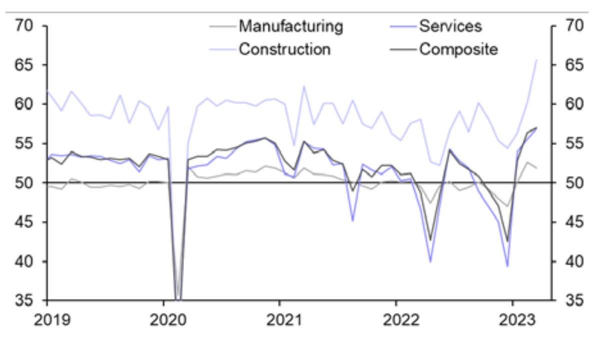
CHINA DATA RESPONSE

Official PMIs (Mar.)

Still going strong

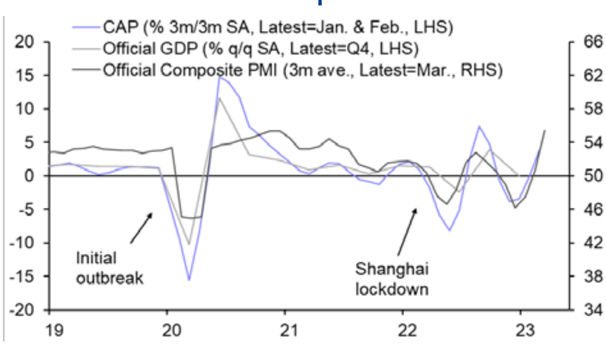
- **The official PMIs suggest that China's rapid reopening recovery remained robust this month. The weak global backdrop weighed on manufacturing but services continued to benefit from a resurgence in consumer spending and construction was buoyed by fiscal support. This strength won't be sustained indefinitely, however. With much of the immediate boost from dismantling virus restrictions now already passed and policy set to turn less accommodative, the recovery is likely to moderate over the coming months.**
- The official manufacturing PMI declined from 52.6 in February to 51.9 this month (the Bloomberg consensus was 51.6, our forecast was 50.5). (See Chart 1.) The output component fell from 56.7 to 54.6. **This is partly because the rebuilding of inventories following earlier supply chain disruptions came to an end this month. But growth in demand softened too**, with the slowdown concentrated in export orders.
- The non-manufacturing PMI rose again from 56.3 to 58.2, the highest reading since 2011 (Bloomberg: 55.0, CE: 55.5). (See Chart 1 again.) **The services index climbed from 55.6 to 56.9, the highest since records began. This largely reflects a jump in in-person activity following the lifting of virus restrictions and waning infections.** The official statement noted that the strength was concentrated in retail and transportation.
- Meanwhile, there was a jump in the construction index from 60.2 to a record high of 65.6. While this may signal stronger property construction, we suspect it has more to do with faster infrastructure spending due to the front-loading of fiscal support this year.
- All told, the official composite PMI climbed from 56.4 to 57.0, its highest since 2011. (See Chart 1 again.) **While this leaves little doubt that the recovery was still going strong in March, it doesn't necessarily imply that sequential growth is still accelerating.** During the initial post-lockdown recovery in 2020, the composite PMI continued to rise long after q/q GDP growth had already peaked. (See Chart 2.)
- There is still plenty of scope for a continued rise in economic activity in the months ahead, and we remain of the view that GDP growth will comfortably exceed the government's growth target this year. **But the pace of the recovery will inevitably slow going forward, not least because the economy has already regained so much ground in such a short space of time.**

Chart 1: Official PMIs



Sources: CEIC, Capital Economics

Chart 2: Official GDP, CE China Activity Proxy & Official Composite PMI



Sources: CEIC, WIND, Capital Economics

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