
CHINA ECONOMICS RAPID RESPONSE

Caixin Manufacturing PMI (Mar.)

 3rd April 2023

Reopening boost to industrial activity already waning

The Caixin manufacturing index was more downbeat than its official counterpart, especially when it came to export orders. Taken together, the surveys suggest that growth in factory activity dropped back in March amid weak foreign demand, which we think will persist in the coming months.

The Caixin manufacturing PMI declined from 51.6 in February to 50.0 last month, below expectations (the Bloomberg consensus was 51.5 and our forecast was 50.5). This was weaker than the [official PMI](#) published last Friday, which declined from 52.6 to 51.9. The average of the two fell and is consistent with factory activity expanding at a slower pace last month. Given differences in the composition of the firms surveyed, the larger decline in the Caixin index suggests that smaller firms and exporters are facing the greatest headwinds amid weak foreign demand.

We think it makes sense to average across both PMIs to gauge conditions in industry and get a sense of what they mean for the hard data. On this basis, the output component fell but remained above the 50-mark. Demand softened too, primarily due to a fall in new export orders, which points to slight declines in exports last month. Indeed, respondents noted an improvement in domestic orders following reopening while sales from abroad were sluggish.

The relatively modest and short-lived pick-up in the manufacturing PMIs in Q1 suggests that the industrial sector has only received a limited boost from reopening. This is partly due to a weaker global backdrop, but it is also consistent with our view that most of the reopening recovery will come from the services sector which was hardest hit by the zero-COVID policy. We won't get the Caixin services PMI until Thursday. But its official counterpart published last Friday climbed from 56.3 to a record high of 58.2, as consumers returned to the streets amid waning new infections.