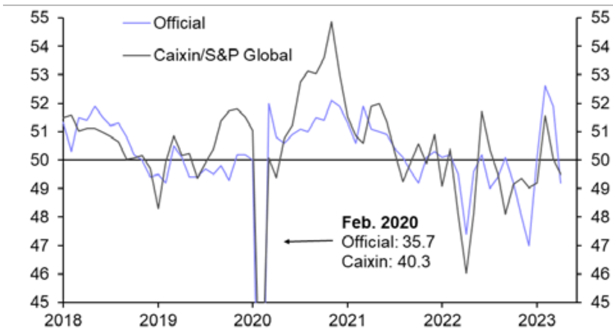
CHINA DATA RESPONSE

PMIs (Apr.)

Growth still strong but slowing

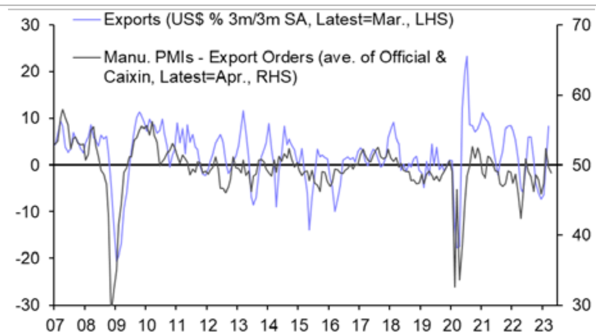
- **The latest survey data add to wider evidence that while China's recovery remains robust, it is losing some momentum. In particular, the manufacturing PMIs fell below 50, suggesting that the reopening boost to industry has fizzled out. And although the services recovery is still going strong, we don't think this momentum will be sustained for long.**
- The Caixin manufacturing PMI fell from 50.0 in March to 49.5 in April (the Bloomberg consensus was 50.3 and our forecast was 49.5). The official survey released over the weekend was also below expectations, tumbling from 51.9 to 49.2 (Bloomberg: 51.5, CE: 51.0). (See Chart 1.)
- **Averaging across both surveys, the headline index fell below 50 for the first time since December, declining from 51.0 to 49.4.** A fall in demand was the main culprit – the new orders components dipped below 50 while the new export orders declined further from 49.7 to 48.9. This suggests that the domestic reopening boost to industry has largely faded in April. (See Chart 2.) As a result, slack in supply chains is increasing. Supplier delivery times shortened further and there was a reduction in the backlog of work. (See Chart 3.)
- **In contrast, most signs suggest the service sector recovery is still going strong.** Holiday spending data from the five-day Labour Day holiday which ended yesterday show that spending was a touch above 2019 levels, the best outturn since the pandemic started. This corroborates with the official non-manufacturing PMI for April published over the weekend which still points to a rapid expansion, though it did drop back from 58.2 to 56.4 (Bloomberg & CE: 57.0). (See Chart 4.) (The Caixin services PMI won't be released until Friday.)
- The decline was partly due to a fall in the services index from 56.9 to 55.1. That said, the accompanying press releases noted that the transportation, accommodation and entertainment industries were still above 60.0, suggesting that those sectors were still seeing robust growth. The construction index also dropped back from a record 65.6 to 63.9 but remains above its five-year average.
- **The latest survey readings are consistent with still rapid growth at the start of Q2. But momentum is slowing relative to what was achieved in Q1. And the recovery will become more challenging going forward.** The fact that domestic tourism spending is now back to 2019 levels suggests that the bulk of the reopening boost to consumer spending has already happened. The manufacturing sector also faces challenges from the weak global outlook. As such, the recovery is likely to continue to lose momentum over the coming months.

Chart 1: Manufacturing PMIs



Sources: CEIC, S&P Global, Capital Economics

Chart 2: Exports & PMIs - Export Orders



Sources: CEIC, S&P Global, Capital Economics

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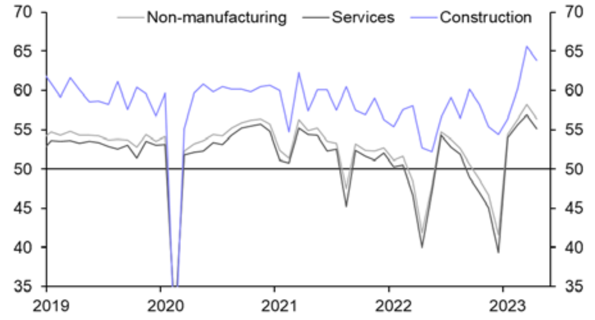
Chart 3: Manu. PMIs (Ave. of Official and Caixin)

Sources: CEIC, S&P Global, Capital Economics

Chart 4: Official Non-Manufacturing



Sources: CEIC, S&P Global, Capital Economics

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