

China's PMI drops and this is just the beginning

The release of China's manufacturing PMI data for January almost looks irrelevant now. Uncertainty about the impact of the coronavirus is a serious risk



PMI looks stable though export orders contracted

China's official manufacturing PMI dropped to 50.0 in January from 50.2 in December. Domestic orders increased to 51.4 from 51.2, which seems very encouraging. However, export orders contracted, falling to 48.7 from 50.3, although this is understandable as the Chinese New Year fell in January this year. Overall, these figures are relatively stable.

But this data may not be as important as before

That said, we cannot rely on the PMI data as much as we have in the past, given the threat of the coronavirus and the extended holiday.

Factory workers usually go back to work around two weeks after white-collar workers go back (that is, around the fourth week of February). But many cities have been put on lockdown to contain the virus and factory workers have to gauge what these severe travel restrictions mean for them.

If they are unable to return to work in the next few months, they may choose to look for another job in their home town. These personal choices are difficult to gauge, which is why we believe the PMI released today isn't a good indication of future manufacturing activity.

Production under the coronavirus

Production is expected to be affected by the coronavirus but it is very hard to estimate the extent of this. Uncertainty about the impact on manufacturing activity is very high and labour-intensive factories are particularly at risk.

Some production lines will be affected, but it is difficult to estimate the damage across various industries. Some workers in the electronics industry already wear protective clothing when they work because they have to prevent dust going into the electronics. This could limit the spread of the virus. Still, this cannot be applied to all production lines in the same factory.

1Q GDP will be affected

We expect the manufacturing PMI to fall under the key 50-level, signalling contraction, and this should show up in lower GDP growth.

First quarter GDP is expected to fall to 5.6% year-on-year from 6.0%, assuming that the coronavirus does not spread further.

As said previously, the USD/CNY could weaken to 7.20 if the death rate increases.