

## China: Headline PMIs show recovery but details hint at weak demand

Official PMIs show that China's economy improved in June compared to May, but there are messages in the sub-indices signalling that full recovery will take some time



Woman wearing a face mask to help curb the spread of Covid-19 as her friends prepare to set up a picnic cloth on a scenic mountain in Yanqing, outskirts of Beijing, China

Source: Shutterstock

### ⬆️ Rebound in non-manufacturing activity is a surprise

The rebound of the non-manufacturing PMI to 54.7 in June from 47.8 in May was mainly due to more construction activity (the PMI for which was 56.6, up from 52.2 in May). This indicates the resumption of infrastructure construction and some state-backed real estate developers also resuming home and office building.

It was less surprising to see the manufacturing PMI recover to 50.2 in June from 49.6 a month earlier, with new orders increasing to 50.4 from 48.2 in May. Manufacturing activity was not as badly affected by the Covid quarantine measures in June as more factories worked in closed loops to avoid production disturbances.

### ⬇️ Sales did not pick up in June, profit margins squeezed

The employment sub-index showed further decreases in workers in both PMI series. This will

continue to put pressure on retail sales and selling prices.

The selling price sub-index in both non-manufacturing and manufacturing PMIs, from which we can infer demand for both goods and services, remained weak, even though lockdowns were more localised in June.

There could be a further squeeze on profit margins as costs are now edging up while selling prices are falling.

## ? The 5.5% GDP target set by the government is challenging

This set of PMI data indicates that demand remains weak. And future demand depends on the likelihood of further lockdowns as the government remains committed to its zero-Covid policy. We think that it will be challenging for the government to achieve the 5.5% GDP target set in March. There will need to be a lot more infrastructure activity if the government is to achieve this target.

And here is our [China economic outlook for 2H22](#) to discuss this further.