

China: Manufacturing activities expanded even during the holiday

Staying at work locations to spend the Chinese New Year helped manufacturing activities. Looking ahead, domestic demand should be solid but external demand is likely to continue to be volatile



Manufacturing activities outpaced our expectation

Manufacturing PMI was 50.6 in February and fell from 51.3 in January, but is still expanding.

This signals some factory workers were still working during the Chinese New Year, where manufacturing activities sub PMI was 51.3 in the month, having fallen from 53.5 in the previous month. This should be the result of workers staying at work locations to spend the Chinese New Year. Some workers found a nice salary working during the holidays. Domestic orders continued to stay above 50 at 51.5 from 52.3 in January.

But external demand fell to contraction level at 48.8 in February from 50.2 before the Chinese New Year. That reflects the fact that Covid-19 cases were still high in export markets.

Honestly, the manufacturing PMIs surpassed our expectation, and shows that domestic demand can continue to support the manufacturing sector. This demand came from the technology sector, commodity sector and the construction sector.

51.5 New domestic orders
Manufacturing PMI

48.9 New domestic orders
Non-manufacturing PMI

Service demand expanded but not as great as we thought

Non-manufacturing PMI was 51.4 in February down from 52.4. We expected domestic orders would expand in the month but it continued to shrink from January's 48.7 to February's 48.9. This could largely be a result of continual limited orders for transportation services, both from inbound and outbound travels, as well as a lower expectation of sales after the long holiday. The next long holiday is in May.

We expect retail sales to jump over 10% year-on-year as domestic demand should be solid from job stability and wage increases. But we won't get this data until the end of March as the first three months' data are usually reported as quarterly data to avoid seasonal misalignment from the Chinese New Year.

Within all the categories of retail sales, **we expect catering to resume to positive growth, which is an important indicator to show that the Covid impact on the Chinese service economy continues to fade, but a full recovery is yet to come with travel restrictions.**