

## China manufacturing and non-manufacturing activity slowed in June

Both manufacturing and non-manufacturing activity growth slowed in June compared to May. These sectors were both affected by Covid and by chip shortages that affected factory output as well as services like logistics activities. External demand was again affected by Covid.



Workers on a copper foil production line in Jiangxi Province

### Covid is still a risk to manufacturing activity

June's manufacturing PMI was 50.9, slightly lower than 51.0 in May. This was largely a result of Covid, which has affected factory output and also new export orders due to the rising waves of infections and resultant restrictions in some neighbouring economies.

The Chinese government policy to deter speculation on commodity prices has also lowered input prices. These factors combined yielded a lower PMI in June.

### Service activity was mixed though the PMI showed slower growth

There were several factors affecting the non-manufacturing PMI in June. Construction activity held up well at 60.1, which was the same as the previous month. But the business service index went down to 52.3 from 54.3 due to Covid outbreaks within China in June that affected logistics, catering and hospitality. But this is only a short-term effect as localised Covid infections in China

have been brought back under control.

## Overall, not a great month but no really worrying signs

The market has used the word "peaking" to describe China's economic growth. I do not agree. The growth rate is still positive, though it would be a lot lower in 2H21 than 1H21, mostly because of the change in base effects.

When I look at the economy, the growth engines are still there. Consumption is moderately strong and is improving. For example, Covid in June affected consumption services in shops and restaurants but boosted online activities. External demand has yet to peak, and therefore China's exports could be stronger when Covid subsides elsewhere in the world.

The Technology war, which is both a short-term and long-term risk for China has been addressed by the government, which has assigned Liu He to lead the advancement of technology. A more coordinated approach should be positive for technology growth in the long term.

We are keeping our forecast at 6%YoY for 2Q21.