

China manufacturing PMI in contraction again after a short-lived expansion

China's manufacturing PMI recorded another contraction in July after just one month of expansion in June. Is this because of the real estate industry or a general contraction of manufacturing activities?



China coal

49.0

Manufacturing PMI for July

Down from 50.2 in June

Worse than expected

China's manufacturing in contraction again

Manufacturing PMI was lower at 49.0 in July from 50.2 in June.

According to the official press release, industries in contraction include textiles, oil, coal processing, ferrous metal smelting and rolling processing. Ferrous metals are popular in building construction. As such, the recent event of uncompleted real estate projects could be at least part of the reason leading to the contraction of manufacturing activities. We believe that the event should delay

some real estate projects from starting as demand for new homes has fallen since the event is reported in the media.

But not all industries were in contraction. Infrastructure-related industries were in expansion, including rail, ship and air transport equipment. Automobiles, which is supported by consumption subsidies on electric vehicles (EVs), was also in expansion.

Weakness in manufacturing activities could continue

Both new orders and new export orders in the manufacturing PMI were in contraction. This implies both **domestic demand and external demand for manufacturing were weak. And another month of manufacturing PMI under 50 is likely.**

We believe domestic demand can rebound in September if there is a solution for uncompleted residential projects. It is therefore important for the government to implement a solution for uncompleted housing projects quickly. This can avoid the risk of contagion from financially unhealthy property developers to their downstream and upstream industries.

But export demand could be weak for a longer period as our US Chief economist, [James Knightley](#) believes that the US economy could weaken further.

Non-manufacturing PMI still showed a rebound in services

16 industries out of 21 surveyed by the non-manufacturing PMI were in expansion, including airlines, accommodation, catering, environmental protection and public services. This shows a continual recovery of services after lockdowns were lifted in early June. Since then, China has adopted a more flexible approach on Covid testing and quarantines, which also helps the recovery of services.

We expect these **service industries to keep expanding in August** as summer holiday travels within China should boost services activities.