

## China: Manufacturing PMI rises

China's PMI headline index rose in January to 49.5 from 49.4, but the detailed message from the components is not so reassuring



### Headline up, but forward indicators bleak

The vast majority of forecasters including ourselves anticipated a decline in this PMI index this month, so what is going on? At a component level, the output index did increase by 0.1pp, and stands at a modest 50.9, consistent with very slow, but positive growth. But the decline in the supplier delivery time index to 50.1 from 50.4 is more consistent with weakness than a pick up in activity. Inventories also rose, which will have fed through to the headline increase, But this is in all likelihood a reflection of stocking-up ahead of tariff concerns. It probably shouldn't be read positively. It may have to be unwound in the months ahead.

Moreover, forward-looking indicators of Chinese manufacturing strength, such as new orders, fell slightly again to 49.6, indicating outright shrinkage at these levels.

49.5 Jan Mfg PMI  
(was 49.4)

Higher than expected

## Is the stimulus getting where it should?

Moreover, when viewed by size of firm, there is a clear split between large enterprises, and everyone else. Large firms showed a pick up from 50.1 to 51.3. They are probably the easiest for banks to support with recent monetary stimulus measures. But the additional effort of getting loans out to small and medium-sized firms shows in outright falls in the indices for these firms at levels well below the 50 break-even level.

Tomorrow's Caixin PMI, which has a greater private sector focus than these official PMIs will probably show a similar discrepancy. Our Greater China Economist, Iris Pang, sees the Caixin Manufacturing PMI index falling to 49.2 from 49.7.

## Better news for the non-Mfg sector

The non-manufacturing sector fared better according to these latest data. The headline non-Mfg PMI index rose to a respectable 54.7 from 53.8, helping lift the composite index to 53.2. New orders rose to 51.0 from 50.4. But while some other component indices also rose, like employment, export orders, backlogs of work and inventories, they remained below 50, suggesting merely that the rate of actual decline in these areas was lessening, but has not yet reversed.

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