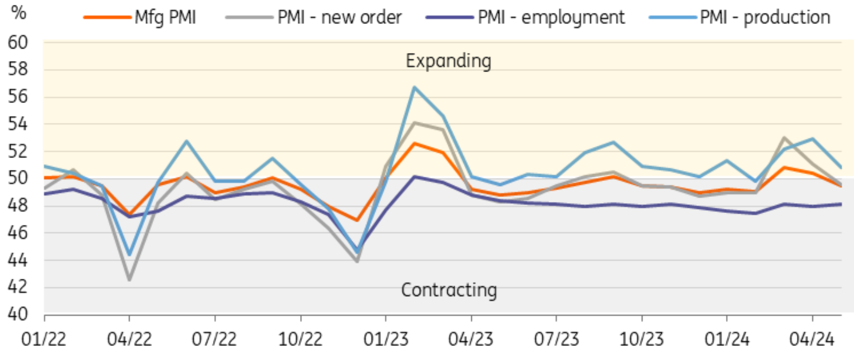
China’s May PMI disappointed as manufacturing fell back into contraction

Manufacturing sector PMI fell back into contraction amid weak orders and slowing production

49.5 China's May manufacturing PMI

Lower than expected

Drop in production and new orders pulled the manufacturing PMI into contraction



Sources: CEIC, ING

China's manufacturing PMI fell to a three-month low of 49.5

China's May manufacturing PMI fell to 49.5, down from 50.4 in April. May's manufacturing PMI marked a 3-month low and was disappointing after the recent strength of industrial activity data. The PMI came in notably weaker than both the market and our forecasts, which expected an uptick.

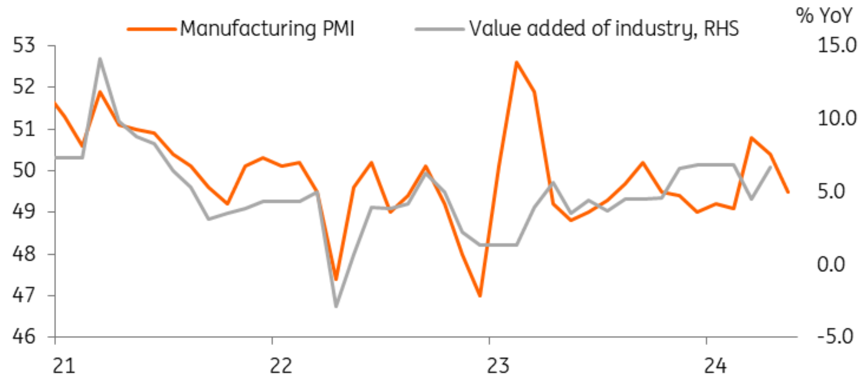
The main reason for this month's decline was a drop in new orders (49.6) and new export orders (48.3), which both fell back into contraction after two months of expansion. Production (50.8) also slowed during the month but remained in expansion for the third consecutive month. Employment (48.1) was little changed but remained in contraction for the 15th consecutive month.

On the other hand, we saw raw material purchase prices (56.9) and ex-factory prices (50.4) both hit an 8-month high, which likely precedes a rise in inflation in the second half of the year.

By firm size, large firms (50.7) resumed their outperformance, while medium firms (49.4) and small firms (46.7) fell back into contraction after two strong months. The private sector has lacked dynamism so far this year, which may continue to drag on medium and small firms.

Given a fairly strong positive correlation between the data, the disappointing PMI release sends a warning signal for the upcoming industrial production data.

PMI contraction could signal a slowdown of industrial production



Sources: CEIC, ING

Disappointing data could increase urgency to expedite policy rollout

The May non-manufacturing PMI fell to 51.1 from 51.2, which also disappointed compared to market expectations for a rise to 51.5. Despite the headline number remaining in expansion, most of the important subcategories remained in contraction on the month, with new orders remaining below 50 for the thirteenth consecutive month, though seeing a smaller contraction at 46.9. Employment (46.2) also fell to the lowest level since 2022.

It is usually advisable not to overly rely on survey data as it can be fickle. Nonetheless, today's PMI disappointments may send a warning sign for growth. This is especially the case as industrial activity has been the primary source of strength in the first four months of the year amid weaker-than-expected retail sales.

If the hard data for industrial activity indeed confirms a slowdown, there could be increased urgency to expedite the rollout of trade-in policies and other policies to support consumption and investment to keep the economy on track to reach its 5% growth target this year.

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