

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

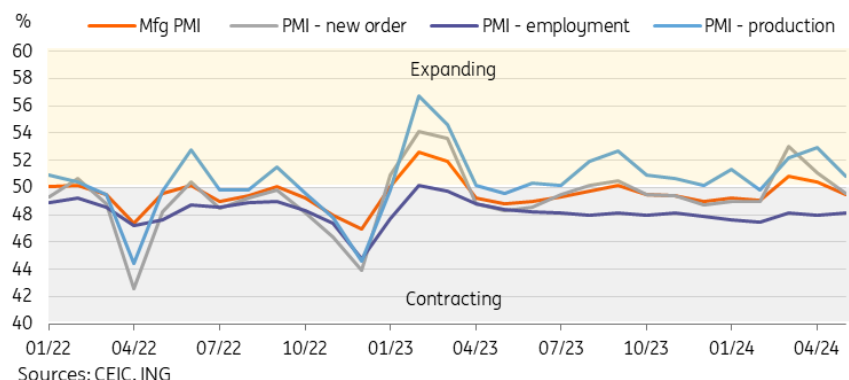
Manufacturing sector PMI fell back into contraction amid weak orders and slowing production



49.5 China's May manufacturing PMI

Lower than expected

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



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.

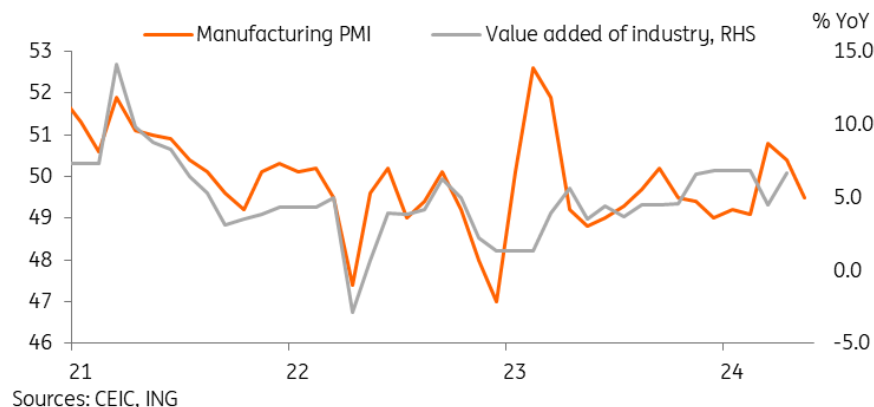
The main reason for this month's decline was a drop in new orders (49.6) and new export orders (48.3), which both fell back into contraction after two months of expansion. Production (50.8) also slowed during the month but remained in expansion for the third consecutive month. Employment (48.1) was little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



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.

Author

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.