China: Momentum waned in October

PMI data for October showed momentum in China's economy waned following recent improvements in hard activity data. The manufacturing PMI dropped back into contraction territory and the non-manufacturing PMI also fell

Source: Shutterstock

49.5

Manufacturing PMI index

Down from 50.2

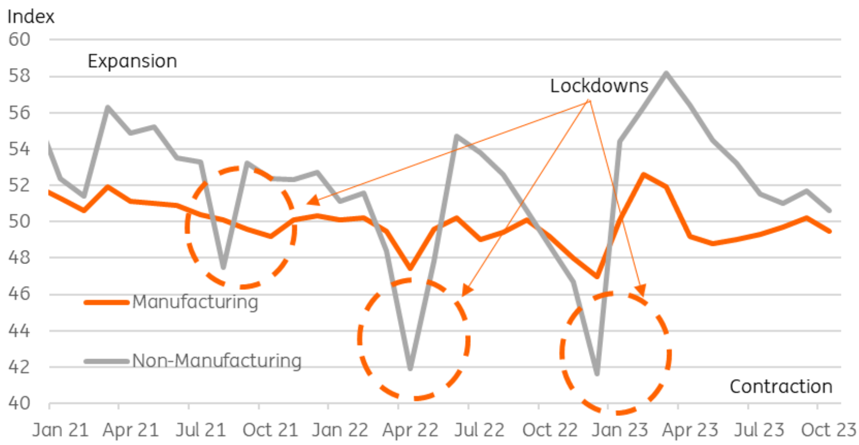
Lower than expected

Economic momentum slowed in October

China's Official PMI numbers fell in October, which comes as a slight shock as recent activity data had been firming, and this suggests that the economy is still struggling despite the better-than-expected 3Q23 GDP figures reported recently.

China's composite PMI dropped from 52.0 to only 50.7 - consistent with only very slow overall economic growth. Within this total, the manufacturing PMI index fell into contraction territory (49.5, down from 50.2). There was a bigger fall in the non-manufacturing index to 50.6 from 51.7, but it managed to remain in expansion territory (just).

China's Official PMI indices (headlines)



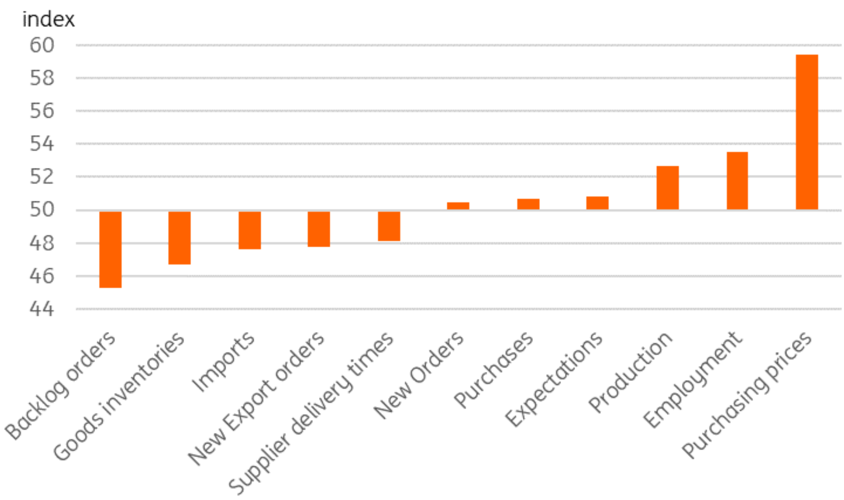
Source: CEIC, ING

Most industries saw growth slow

By industry type, most manufacturing sectors experienced a slowdown in growth in October, though for companies that are heavy consumers of energy, activity actually declined slightly, perhaps affected by recent increases in the prices of crude energy.

Focusing on the manufacturing sector, the sub-components of the PMI index were quite mixed. Weak export orders and an inventory buildup, together with weak imports weighed on the headline index. Manufacturing production itself was not so bad, and employment also looked stronger, though quite a lot of the increase can be attributed to higher purchasing prices, which isn't necessarily a good thing.

October 2023 Manufacturing PMI - subcomponents



Source: CEIC, ING

4Q23 GDP could slow

If reflected in hard activity data, today's PMIs suggest that the momentum of China's economic growth ebbed at the beginning of the fourth quarter. Talk of recent support measures, including a wider central government deficit, will help offset any tendency for the economy to slow, though such measures will probably have more of an impact on growth at the beginning of 2024, given that we are already a third of the way through 4Q23.

Even so, today's data suggest that although it has weakened, economic growth is still ongoing. And if this initial set of data is representative of what will follow for the rest of the quarter, it should still be enough for China to hit its 5% GDP target for 2023 though on slower incremental growth in the fourth quarter of 2023.

That said, 5% is a low hurdle, and reaching it doesn't mean that all of China's growth worries are over.

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