

## China: PMI continues to sink

China's manufacturing and non-manufacturing PMI continued to fall in February. Unless the trade war truly turns into an extended truce, the weakening trend may not end quickly. As such we expect March's PMI to fall too



Workers at an electronic factory in Eastern China

### Manufacturing PMI continues to fall below 50

February's manufacturing PMI data came in at 49.2, lower than January's 49.5. And more importantly, it continues to lie below the boom-bust 50 line. New export orders continued to sink, falling to 45.2 in February from 46.9 last month.

### Slight good news

One piece of slightly good news comes from new orders, which represent new domestic orders. These rose to 50.6 in February from 49.6 last month. There are two explanations for this. One is that the stimulus and monetary easing have been effective in bringing domestic demand back to expansion. Another is that this data is just a one-off and will not persist.

We believe that it will be better to monitor these data for another month before we jump to any conclusions.

## Different picture for non-manufacturing PMI

Though the non-manufacturing PMI also continued to fall, dropping to 54.3 in February from 54.7 last month, new orders in this sector fell to 50.7, (near the 50 threshold), from 51.0.

With massive credit growth in January, which is expected be passed on to the real economy, it is difficult to explain such weak growth in new orders in the service sector, which includes financial services.

This data makes us worry that the service sector is slowing alongside the manufacturing sector.

## Truce impact

We believe a trade deal, especially over the longer run, will be positive for both the Chinese and US economies. But this will not immediately reflect in economic data. For example, manufacturers could continue to adopt a wait-and-see approach with respect to any ultimate deal before committing to expensive and irreversible CAPEX investment decisions.

Any such deal is unlikely until the end of March at the earliest. This means we probably will have another month or two of bad PMI data before signs of improvement begin to emerge.