China PMI reveals what it is like for big cities under lockdown

Both manufacturing and non-manufacturing PMIs fell below 50 due to lockdowns for mass-testing in big cities. But we are optimistic that there will be a rebound in April.

Given strict social distancing measures in China, more cities could find themselves being put into lockdown

Both manufacturing and non-manufacturing PMIs point to a monthly contraction

China's official manufacturing PMI fell to 49.5 in March from 50.2 a month ago. This reflects the impact of lockdowns for mass Covid testing on production, new orders and delivery times. A slight increase in the output price index may help to partially offset what looks like a bigger increase in input prices. The fact that there is still some pricing power for producers is encouraging given our expectation that this contraction should be temporary.

The non-manufacturing PMI fell even more to 48.4 in March from 51.6 in February. Financial services and telecommunication were both still above 50. But transportation, accommodation and catering were all below 50. These weaker results are within our expectations because people stayed in their homes or workplaces during the lockdowns. Similar to manufacturing, the index for selling prices showed an increase, showing that service providers are still able to pass on some of the increase in input prices.

Expect a better PMI in April

Looking ahead to next month, most of the population should be able to return to work as usual after this lockdown. As such, we expect both manufacturing and non-manufacturing PMI should be able to move back above 50 in April.

One uncertainty is that people with positive Covid cases found from this round of mass tests could remain in isolation facilities in April. For financial service workers, they may be able to work from isolation facilities, just like they work from home. But this is not applicable to factories and port workers. We do not, however, expect many positive cases to be found at ports because ports have already been in closed-loop operations.

Summing up, there is, without doubt, some uncertainty reflected in these numbers - mainly on supply chains. But we are slightly more optimistic than the market in general.

Revised GDP forecast

We are cutting GDP to 2.275%YoY in 1Q22 from 2.5%, mainly to reflect this round of lockdowns. But we are revising up our forecast for 3Q22 to 6.0%YoY from 5.0%YoY as the issuance of local government special bonds should increase the start of infrastructure projects in 2H21.

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