

China: PMI shows a policy-driven economy that continues to slow

PMIs of manufacturing and non-manufacturing data show that the Chinese economy grew at a slower rate in July. We think that's largely due to policy action, and that this will continue in 2H21



Visitors observe various kinds of chips are exhibited at different booths by semiconductor companies at the 18th China International Semiconductor Expo, Shanghai, China

Source: Shutterstock

Slower growth

The official manufacturing PMI was recorded at 50.4 in July, down from 50.9 in the previous month. The same happened in the non-manufacturing sector, where the PMI was 53.3, down from 53.5 in June.

For the manufacturing PMI, major sub-indices mostly fell. This is worrying, especially as new orders dropped 0.6 points and there was a fall in new export orders too. This combination means demand was not as good as before, and therefore we expect the production sub-index for August to be just above 50.

Policy actions dictate growth

Slower growth in non-manufacturing activity was mostly the result of weaker real estate

activity as regulators have tightened purchasing policies and mortgage limits. It doesn't seem to be an issue with consumption.

Regarding manufacturing, new export orders came in below 50 at 47.7. This could be due to 1) The Delta variant's impact on export market demand and 2) supply chain issues from chip shortages. The chip problem is partly due to the US putting Chinese technology companies on the entity list. An example that illustrates the supply chain issue is overseas automobile manufacturers placing a smaller number of orders on parts produced in China if the automobile manufacturer does not have enough semiconductor chips to produce that many cars.

Slower growth ahead

None of the factors for slower manufacturing and non-manufacturing growth have gone away. In fact, more policy directions were announced on 30 July, and they are directly from a meeting chaired by President Xi. Those policies aim at solving problems to achieve long-term economic stability, which could sacrifice short-term growth momentum.