

## China: PMI shows recovery but risks remain

Both manufacturing and non-manufacturing PMIs show a strong recovery of the Chinese economy. The main challenges remain the technology war with the US and its allies and a fragile export recovery due to Covid-19 in the Western world



Woman wearing a face mask to help curb the spread of Covid-19 as her friends prepare to set up a picnic cloth on a scenic mountain in Yanqing, outskirts of Beijing, China

Source: Shutterstock

### PMI data reflect a growing economy

Manufacturing PMI increased to 51.9 in March from 50.6 in February, which is the month of Chinese New Year. Sub-indices show that new export orders rebounded to expansion from contraction. But we see this rebound as a fragile one, which we will discuss in the risk section of this note.

Though there was a rebound in new export orders, new orders (domestic) show stronger monthly growth, which reflects the situation that domestic demand gives better support to economic growth.

Non-manufacturing PMI increased more than expected to 56.3 in March from 51.4 a month ago. This increase reflects a big jump in services related to construction work, of which the PMI sub-index is 62.3. This is a hopeful sign that implementation of infrastructure investment announced in

the Two Sessions has begun.

From both PMI sub-indices regarding delivery time, we cannot see that there is a delay in delivery, so supply chain tightness in some sectors, e.g. semiconductor chips, might not be reflected in the PMI sub-index.

## Main risks

1. Let's reiterate that the technology war is the number one risk faced by China in 2021. Chinese companies continue to face difficulties in buying and selling technology parts, products and services from companies on the US entity list, which can include non-US companies. This means that China faces a big risk in production related to advanced technology products and services.
2. Another risk, which is hopefully temporary, is the fragile recovery of export demand that comes from restrictive social distancing measures, and even lockdowns, in the US and Europe. There are some economies in Europe tightening these measures due to the rising number of Covid cases. A full recovery of export demand for Chinese goods would be further delayed.

These two risks affect the Chinese economy's growth trend by offsetting the strong growth of domestic demand, including consumption, investments in infrastructure and technology R&D. Without these risks, China can grow faster.

## Forecasts

All in all, we keep our GDP forecast for China in 1Q21 at 12% and the full year at 7% after considering these risks and the domestic growth momentum.