

## China: PMI shows weakness in exports

China's manufacturing Purchasing Managers Index (PMI) stayed above 50 in May. It appears that growth has returned to the manufacturing sector, but new export orders and imports were still in contraction. A recovery in manufacturing and employment in some sectors remains challenging



Source: Shutterstock

### Manufacturing PMI stayed above 50

China's manufacturing PMI shows that manufacturing activity expanded at a slightly slower pace in May (50.6) compared to April (50.8).

The above 50 manufacturing PMI was mainly a result of expansion in new orders (domestic orders), import prices and especially the expectation of production activity. Otherwise, most of the other indices were still in contraction.

# 35.3

## New export orders

Manufacturing PMI

### Exports and imports were still in deep contraction

New export orders and import activities declined again in May.

New export orders were 35.3 but contracted at a slightly slower pace than indicated by the 33.5 reading in April. Imports, some of which are parts to serve export orders, also followed the same pattern as new export orders, at 45.3 in May, slowing less than implied by April's 43.9.

The employment level was back in contraction at 49.4 after growing month-on-month in March and April. This shows that a continuous contraction in new export orders puts pressure on factories, which chose to lay off workers in May.

### No magic recovery in the manufacturing sector

Global demand is weak, as demonstrated by high unemployment levels in the US, UK and European economies, even as lockdowns are relaxed in some major cities. Even with some re-opening, the jobs markets in these countries are unlikely to be able to digest all of these unemployed in a short time period. This could take a long time to improve.

As some of the migrant workers in China have been laid off, there should be a hit to domestic demand as well. The government work report in the Two Sessions shows that stabilising jobs is the first priority. And in fact, Premier Li immediately started the implementation of the government work report when the Two Sessions closed.

The capacity of the domestic manufacturing sector is limited. This means there is no magic solution to absorb most of these migrant workers in such a short period of time.

### More dependence on the service sector

There could be more dependence on the domestic market, of which the service sector has recovered better than the manufacturing sector.

With the service sector recovering faster than the manufacturing sector, we think that some of these migrant workers will shift from working in factories to working in the service sectors, eg, in logistics, catering, inbound tourism sectors etc. These sectors were in expansion as described by the National Bureau of Statistics.

In the coming months we should look at changes in the employment index in the manufacturing PMI as well as in the non-manufacturing PMI to confirm this view.