

China PMI surprised to the upside with policy support

Both manufacturing and non-manufacturing PMIs recovered back above 50, showing signs that domestic demand from infrastructure investment is starting to show its impact while consumption continues to remain weak



The PMIs describe an economy where consumption remains weak

Manufacturing PMI jumped on higher input prices due to rise in domestic demand from infrastructure

The National Bureau of Statistics outlined a very small increase in the manufacturing Purchasing Managers' Index (PMI) from 50.1 in January to 50.2 in February, reflecting slightly greater expansion among larger companies, while also beating estimates of a fall into contractionary territory. Caixin's PMI survey showed a stronger result for smaller companies, rising solidly from 49.1 in January to 50.4 last month. Small and medium enterprises (SMEs) likely benefitted from being the focal point in China's policy direction during their annual Central Economic Work Conference, and are slated to receive preferential policies like interest rate cuts for some SME loans. The numbers were a positive surprise. We had expected manufacturing activity to dip in February due to substantially fewer working days.

New orders climbed to 50.7 from 49.3 in January, and new export orders also climbed to 49.0 from 48.4, though remained below 50. These figures illustrate a recovery that is more demand-driven, as new orders increased, and we expect this increase came from infrastructure investment. The government has allowed an early issuance of CNY1.48 trillion local government special bonds that will be spent on infrastructure.

There were some hidden risks in the manufacturing PMI:

- Upstream manufacturers seem to be able to pass on some input price increases to downstream producers, as output prices rose at roughly the same pace as input prices.
- External demand should provide some support for Chinese businesses as the West is gradually lifting Covid-related movement restrictions and retail and jobs markets have improved accordingly, although the survey still shows that export orders were in contraction.

Non-manufacturing PMI also got support from infrastructure

The non-manufacturing PMI also showed a faster expansion, rising to 51.6 from 51.1 the month before. The consensus forecast was for a slowdown to 50.7. Construction activity rose to 57.6 from 55.4, which was expected with the front-loaded infrastructure investment policies.

Meanwhile, services business activity saw a smaller increase to 50.5 from 50.3. This main driver for this increase was probably higher spending during the long holidays, particularly in retail sectors, which could have been even higher had it not been slowed by virus containment measures due to China's tough stance on Covid.

The PMIs describe an economy where consumption remains weak but where the government has started infrastructure investment to fill the gap. This divergence should be highlighted clearly in the upcoming Two Sessions government work report.