

## China PMIs provide temporary relief

Manufacturing and non-manufacturing PMIs show the economy is expanding, especially the service sector, in April. But an upward trend has yet to be formed. There is still a lot of uncertainty in the coming months from weak global demand



Workers produce protective masks at a factory.

Source: Shutterstock

### China PMIs regain some momentum

Manufacturing and non-manufacturing PMI revealed some improvement in the economy. The April manufacturing PMI was 50.8 in April compared to the previous 52.0 and non-manufacturing PMI recorded at 53.2 in April compared to 52.3 in March.

Do these two numbers reflect the full picture of the economy? We doubt it.

**33.5** New export orders  
Manufacturing PMI

## Not decoupling yet...

It is still too early to conclude that the Chinese economy is growing again. The Western world has yet to relax some of its city lockdowns. And even after the lockdowns are relaxed, it is uncertain when demand will return to pre-Covid levels due to strict social distancing measures implemented domestically and in foreign economies.

Global demand is likely to remain weak due to high unemployment rates in major economies. China's export orders from the rest of the world should be smaller on both a quarter-on-quarter as well as a year-on-year basis. This is confirmed by the very bad new export orders sub-index of the manufacturing PMI at 33.5.

## ... as the vicious cycle has just begun

We have already seen [reports](#) of China's factories laying off workers due to foreign buyers withdrawing orders. Factories' profits will fall throughout the supply chain in China as both output prices and input prices fell in March from the sub-index of the manufacturing PMI. This will hit employment and wages and therefore domestic demand.

China is not only a manufacturing economy but also a big consumer market for foreign companies. The vicious cycle results in a weak global cycle, which is definitely not good for the non-manufacturing PMI in the coming months and China's economic recovery.

### Contraction of GDP to continue in 2Q20

For the time being, we keep our forecasts for China's 2Q20 and full-year GDP at -3.1% YoY and -1.5%, respectively, due to strict social distancing measures and weak global demand.