

China: PMI's show non-manufacturing growth slowing further

The decline in manufacturing eased slightly in July, but the non-manufacturing sector showed a larger-than-expected slowdown in growth and further falls could see it skirting with contraction



51.5

Non-manufacturing PMI

Down from 53.2

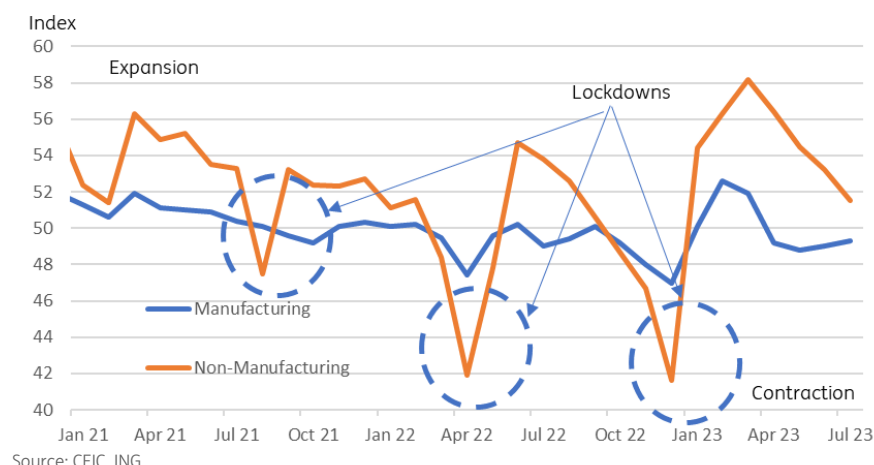
Lower than expected

At this rate, the service sector will join manufacturing in contraction

China's official PMI data provides little encouragement that the economy is turning the corner. And while the authorities have been vocal in their support for the economy, so far, that has not translated into the sort of sizeable fiscal policy stimulus many in the market have become used to expecting. We don't think it is coming.

The key figure in today's release is the non-manufacturing sector PMI. This fell from 53.2 to 51.5, with 50 representing the threshold between growth and contraction. A further fall like the one we saw this month could push the non-manufacturing sector close to contraction, joining the manufacturing sector, which, while it improved slightly from a month ago, at 49.3 remains in negative territory.

Headline PMI indices



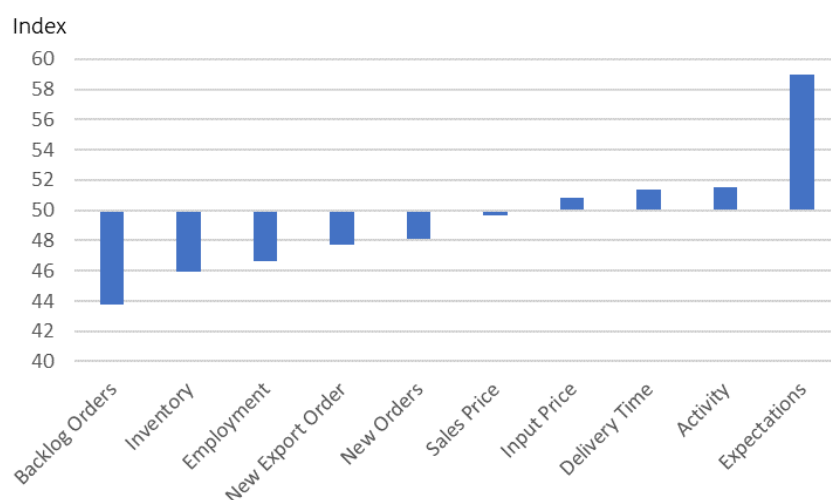
Prospects for the non-manufacturing sector aren't great

Looking at the breakdown of the non-manufacturing sector, what strikes you is that most of the sub-components are already showing contraction. The one component that stands out from the rest, is expectations, which looks like an unrealistic outlier compared with what is going on elsewhere.

We can only put this down to continued hope that the government will pull something out of the bag that will re-invigorate the economy. However, while we believe that a great many micro measures will be implemented to improve the functioning of the economy, including a reduction in constraints on the private sector, we aren't at all convinced that there is a fiscal bazooka waiting to fire up the economy. So, if those expectations aren't fulfilled and begin to wilt, then this PMI could well join the manufacturing sector in contraction.

Tomorrow, the Caixin PMI data will provide another insight into the more private-sector and export-oriented parts of China's economy.

Non-manufacturing PMI components



Source: CEIC, ING

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