

China PMIs show services lag behind manufacturing - but that should change

Both the official and CAIXIN PMIs show that the recovery in service sector activity lagged behind that of the manufacturing sector in May. We expect faster growth in the services sector in June as lockdowns have gradually eased. However, we remain concerned that there may be further lockdowns ahead.



We are worried that lockdowns in China will keep happening

Manufacturing recovers faster than services in May

Even during lockdowns, some factories have been allowed to operate if they have put in place closed-loop operational arrangements, i.e. making it a requirement for staff to remain in the factory area. This has resulted in a smaller contraction in manufacturing activity compared to the service sector.

The official manufacturing PMI was 49.6 compared to the services PMI of 47.8, while the CAIXIN manufacturing PMI was 48.1 compared to 41.1 for the service sector. The survey sample of the official PMI contains larger corporates compared to those of the CAIXIN survey.

Employment in services continued its falling trend

The divergence between the recovery in manufacturing activity and the services sector was also reflected in the employment indices. Both the official and CAIXIN services PMIs continued to show that the downward trend in the employment sub-index had not yet stopped while manufacturing employment contracted less in May.

Easing lockdowns would change these trends

We expect both the official and CAIXIN PMIs to recover to above 50, i.e. expansion, for both manufacturing and service sector activity in June. That comes from the expectation that the likelihood of long lockdowns, like the one Shanghai has experienced, should be small.

Our main concern is that future lockdowns, although shorter and more flexible, will still continue to hurt economic activity. Shanghai has warned that there is a resurgence of Covid outbreaks following the easing of the official lockdown for the whole city from 1 June. And though the chances of renewed lockdown in Shanghai within June are small, we cannot rule out future lockdowns in other cities or even a return to lockdowns in Shenzhen, Shanghai and Beijing.

Our current full-year 2022 GDP forecast of 3.6% has taken this possible scenario into account.