China: PMIs surprise

Both manufacturing and non-manufacturing PMIs send a positive signal for the economy. Can it be sustained?

Passengers cheer up for Wuhan while waiting to take train K81 at Wuchang Railway Station in Wuhan, central China's Hubei Province, late April 7, 2020.

Source: Shutterstock

PMIs surprise on the upside

China's headline manufacturing PMI grew to 50.9 in June from 50.6 in May, and the non-manufacturing PMI increased to 54.4 in June from 53.6 the previous month.

Manufacturing diverges on domestic vs foreign orders

Demand for materials and products for the development of advanced technology, the real estate market and infrastructure projects support growing manufacturing activity.

The foreign orders PMI at 42.6 in June confirms that external demand remains weak. We believe that the ongoing Covid-19 situation in the US and Europe will keep the pressure on export orders in the coming months. External demand weakness is putting pressure on some manufacturers, especially small factories, of which the sub-index PMI fell to 48.9 in June from 50.8 a month ago. This confirms our view that small manufacturers continue to struggle to get export orders.

Service sector PMIs show the same domestic vs foreign divergence

Most of the service industries that showed a positive PMI in June were domestic-related, e.g. storage, delivery, information technology, financial services. But new export orders for services continued to be in contraction.

Covid-19 global infection will continue to hurt China

The divergence of the domestic recovery and foreign orders contraction highlights that the Chinese economy remains affected by the global situation for the Covid-19 pandemic.

As new infection cases globally continue to grow, we believe that China will continue to face a contraction in export orders in the coming months.

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