

China's PMI shows two opposing forces in manufacturing

After a brief rebound in March and April, the official manufacturing PMI in China has been contracting for three consecutive months. We expect that this downward trend in manufacturing will continue in 2019 until the trade and technology negotiations make some progress



New orders and export orders led the contraction

China's headline manufacturing PMI continued to contract, though the slight rise in the index to 49.7 from 49.4, suggests a slower rate of contraction than before.

Within all the subsectors of the PMI, orders are the main indicators of future manufacturing strength. New orders and export orders were 49.8 and 46.9 respectively, though edging higher from the previous month, which saw 49.6 and 46.3, respectively. Both indices remain below 50. That is, manufacturing orders are still falling but at a slightly slower pace.

We expect two opposing manufacturing forces in China

We see two opposing trends in the manufacturing sector, one for export-related industries, another for infrastructure project related industries. This is also evident in industrial production and

fixed asset investment data.

Export related orders will continue to be dim

Export related orders, including technology exports, e.g. semiconductors, have been falling due to the trade and technology war.

Infrastructure related and self-development of high tech will boost PMI

In contrast to export orders, we expect that infrastructure-related orders will rise after the funding is diverted to infrastructure projects. This is indicated by the rising raw material price index (50.7 in July from 49 a month ago).

As long as China cannot import technological components (due to Chinese companies' inclusion in US' entity list), it has to invest to develop its own, which will also create domestic orders for electronic parts and goods. Eg. from the National Statistic Bureau, computation equipment's PMI was above 51.0 in July.

We expect the manufacturing PMI to gradually improve from domestic demand.

We expect domestic demand will boost some parts of the manufacturing sector. But it is still too early to judge whether the manufacturing PMI will overcome the contraction trends and revert to a figure of 50 or higher, representing expansion. Forthcoming activity data will shed more light on this question.

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