

PM Datanote: Manufacturing PMI, China, Oct

In one line: China's manufacturing downturn persists amid weak demand

-China: Manufacturing PMI rose to 49.8 in September from 49.1 in August. Consensus was 49.4.

China's manufacturing weakness continues in September amid tepid demand

The official and Caixin PMIs both signalled shrinking manufacturing activity in September. Despite the pickup of 0.7 points to 49.8, the NBS measure has remained below the key level of 50 for the fifth consecutive month, beating market consensus of a smaller rise to 49.4. The Caixin measure, on the other hand, fell 1.1 points to 49.3, the weakest level since January 2023, and well below market expectations of a rise to 50.5.

The NBS said activity continues to fall

in the petroleum and coal processing industry, and the ferrous metal smelting and processing industry, while industries like pharmaceuticals, cars, electrical equipment, computers, and communication equipment saw activity expand in September. The pickup in the official measure was driven mainly by rising production and a smaller fall in new orders.

The respective indices were 51.2 and 49.9 in September, versus 49.8 and 48.8 in August. Note that the improvement in new orders was driven

by stabilising domestic demand, as external demand—inferred from the new export orders index—dropped at a faster pace in September, to 47.5, versus 48.7 a month ago. However, the continued falls in imports and producer prices suggest that domestic demand remains subdued, with their respective indices coming in at 46.1 and 44.0 in September. On import price pressures, the raw material price index ticked up 1.9 points to 45.1 in September, as global commodity and oil prices continued to ease.

Details of the Caixin PMI show that the significant slowdown in manufacturing activity was led by a rapid fall in new orders and, to a lesser extent, falling employment. The new orders index plunged 2.8 points to 47.5 in September, the lowest level in two years. The new export orders index also signalled a faster fall in external demand, with its index slipping to 48.4 from 49.4 previously. Note that, in response to insufficient demand, manufacturers

continued to reduce the quantity of input purchases (49.3), while the stock of finished products continued to rise (51.8). With tepid demand, the employment sub-index fell to 49.2 in the month, from 50.0 in August. On price pressures, both input and output prices are falling at their fastest pace since mid-2023, thanks to more intense competition in the market and falling global raw material prices.

The still-weak September manufacturing activity suggests

that the economic support measures announced by the authorities last week were indeed necessary if China still wants to achieve the “around 5%” GDP growth target for this year. Despite the different nuances exhibited in both the Caixin and NBS PMI indices, both gauges have pointed to a slowdown in Q3 manufacturing activity compared to Q2. We expect this weakness to be reflected in the September hard data, due to be released later. The differences in the two measures were

largely due to sample differences. Caixin PMI is more export- and light industry-oriented, with a focus on the more economically advanced coastal region, while the NBS measure has a larger sample size and includes more state-owned and larger enterprises.

Looking ahead, manufacturers are becoming less positive about the sector's future prospects, especially in the Caixin measure's future output index, which fell 3 points to 51.6, the lowest level since June 2019.

Admittedly, the sampling period for these PMIs occurred before the stimulus plan was announced. Market sentiment—perhaps including that of producers—has since improved, as indicated by the recent rebound in the equity market, likely to be reflected in the next set of survey data. Overall, we think the impact of the existing stimulus measures will likely trickle through to the real economy and be reflected in both survey and hard data in Q4. The delayed impact was likely due to adverse weather

during the past summer season, which slowed construction activity, and poor land sales, which further inhibit local governments from investing in projects. The new funds raised through faster new general and special bond issuance in recent months will boost activity at some point. While we think the recent stimulus package is not a game-changer, we expect more monetary policy support in Q4—namely a 10bp cut in the policy rate and another 50bp cut in the RRR. More details of

fiscal policy support measures will be announced in the coming weeks.

NBS Manufacturing PMI	Jul-24	Aug-24	Sep-24
Headline	49.4	49.1	49.8
Production	50.1	49.8	51.2
New Orders	49.3	48.9	49.9
New Export Orders	48.5	48.7	47.5
Existing Orders	45.3	44.7	44.0
Finished Goods Inventory	47.8	48.5	48.4
Stock of Purchases	48.8	47.8	47.6
Import	47.0	46.8	46.1
Raw Materials Prices	49.9	43.2	45.1
Producer Prices	46.3	42.0	44.0
Raw Material Inventory	47.8	47.6	47.7
Employment	48.3	48.1	48.2
Suppliers' Delivery Time	49.3	49.6	49.5
Production and Business Expectation	53.1	52.0	52.0
Large Enterprises Activity	50.5	50.4	50.6
Medium Enterprise Activity	49.4	48.7	49.2
Small Enterprise Activity	46.7	46.4	48.5

Legend

Darker Green	PMI>50 and rising
Light Green	PMI>50 and falling
Darker Red	PMI<50 and falling
Light Red	PMI<50 and rising
White	No Change

Caixin Manufacturing PMI	Jul-24	Aug-24	Sep-24
Headline	49.8	50.4	49.3
Production	50.2	50.7	50.2
New Orders	49.2	50.3	47.5
New Export Orders	50.5	49.4	48.4
Employment	49.9	50.0	49.2
Suppliers' Delivery Times	49.7	49.4	49.5
Stock of Purchases	49.9	50.4	50.6
Quantity of Purchases	49.5	49.1	49.3
Stock of Finished Goods	50.4	50.2	51.8
Backlogs of Work	50.6	50.3	49.0
Export Charges	51.6	50.4	48.9
Input Prices	50.5	49.9	47.6
Output Prices	49.8	49.5	48.7
Future Output	54.2	54.6	51.6

Legend

Darker Green	PMI>50 and rising
Light Green	PMI>50 and falling
Darker Red	PMI<50 and falling
Light Red	PMI<50 and rising
White	No Change

NBS Non-Manufacturing PMI	Jul-24	Aug-24	Sep-24
Business Activity	50.2	50.3	50.0
New Orders	45.7	46.3	44.2
New Export Orders	49.6	47.6	47.0
Existing Order	42.7	42.2	42.2
Inventory	45.4	45.1	45.1
Input Prices	50.4	48.6	48.2
Sales Prices	48.2	47.2	46.1
Employment	45.5	45.2	44.7
Suppliers' Delivery Time	50.5	50.6	50.2
Business Expectations	56.1	55.3	54.4
Services PMI	50.0	50.2	49.9
Construction PMI	51.2	50.6	50.7

Legend

Darker Green	PMI>50 and rising
Light Green	PMI>50 and falling
Darker Red	PMI<50 and falling
Light Red	PMI<50 and rising
White	PMI=50 or No Change

Caixin Services PMI	Jul-24	Aug-24	Sep-24
Business Activity	52.1	51.6	50.3
New Orders	53.3	52.6	51.0
New Export Orders	50.5	51.8	53.5
Employment	51.6	49.7	50.3
Backlogs of Work	49.8	50.2	50.4
Input Prices	52.1	52.6	53.3
Output Prices	50.0	49.2	49.4
Future Activity	56.0	56.5	53.9

Legend

Darker Green	PMI>50 and rising
Light Green	PMI>50 and falling
Darker Red	PMI<50 and falling
Light Red	PMI<50 and rising
White	No Change