

China Watch

NBS Manufacturing PMI remained in contractionary territory

Exhibit 1: Manufacturing PMI and its breakdown

Manufacturing PMI improved marginally in Jan

	Weight	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23
New orders	30%	49.0	48.7	49.4	49.5	50.5	50.2
Production	25%	51.3	50.2	50.7	50.9	52.7	51.9
Employment	20%	47.6	47.9	48.1	48.0	48.1	48.0
Supplier delivery times [†]	15%	50.8	50.3	50.3	50.2	50.8	51.6
Raw material inventory	10%	47.6	47.7	48.0	48.2	48.5	48.4
Manufacturing PMI		49.2	49.0	49.4	49.5	50.2	49.7

Source: BofA Global Research, NBS Note: [†] The supplier delivery times sub-index is inverted when calculating headline PMI

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Jan Mfg PMI points to still weak industrial demand

The January NBS Manufacturing PMI improved slightly to 49.2 from 49.0 in December, though remaining below the breakeven level of 50. This reading was largely in-line with market expectations (49.3) and continued to underscore weak industrial demand.

The upcoming Lunar New Year has helped, boosting production and new orders sub-index with the former improving to 51.3 from 50.2 and the latter edging up to 49 from 48.7. On the flip side, both employment (47.6 vs. 47.9 in Dec) and raw material inventory (47.6 vs. 47.7 in Dec) slipped on the month and remained in contractionary territory.

Meanwhile, non-manufacturing PMI rebounded further in January to 50.7, beating market consensus and up from 50.4 in the prior month. Notably, services PMI returned to expansionary territory, to 50.1 from 49.3. This is in line with our view that the services part of the economy has been holding up relatively well. Construction PMI remained resilient at 53.9, but lower than 56.9 in Dec.

Small and medium firms feeling the bigger pinch

By manufacturing industries, PMI for raw materials showed improvement in January while that of equipment and intermediaries manufacturing weakened. For non-manufacturing sectors, rail transportation and postal services PMI remained resilient, partially boosted by the holiday travel season. Meanwhile, PMIs for capital markets and real estate sectors remained depressed given existing headwinds in these sectors.

By firm size, the biggest improvement in PMI was seen among large firms, up 0.4 to 50.4 in January. PMI of medium firms also increased, though by a smaller degree of 0.2 to 48.9. Meanwhile, small firms PMI was the weakest, at 47.2 and well into contractionary territory.

Policy support could lift industrial demand this year

The manufacturing sector is starting the new year with tepid momentum, a continuation of the trend in Q4 2023. The good news is that the PBoC recently announced a surprise RRR cut of 50bp, sending a clear signal to markets that the central bank is willing and ready to provide additional policy support. We expect further monetary and fiscal support to be announced this year, which should help lift industrial demand.

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NBS: National Bureau of Statistics

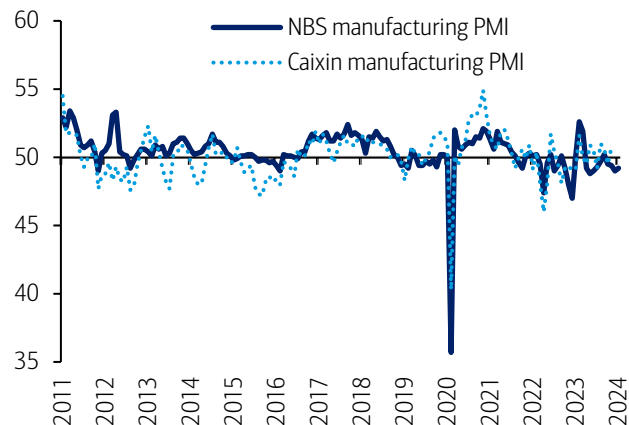
PMI: Purchasing Managers Index

RRR: Reserve Requirement Ratio

Detailed breakdown of PMI

Exhibit 2: NBS manufacturing PMI vs. Caixin manufacturing PMI

NBS manufacturing PMI ticked up to 49.2 in Jan from in Dec

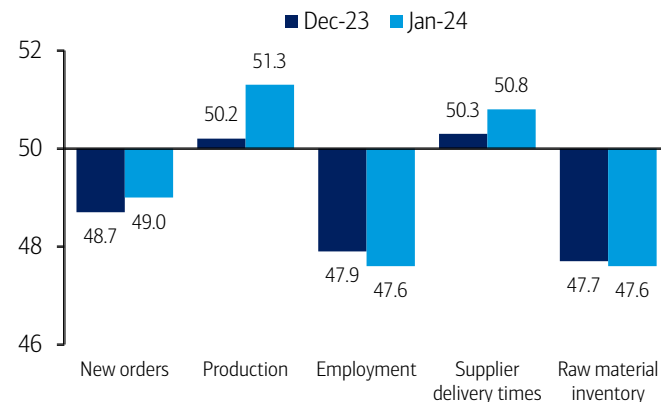


Source: BofA Global Research, NBS, CEIC

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Exhibit 3: NBS manufacturing PMI breakdown

Production edged up, while new orders stayed in contraction

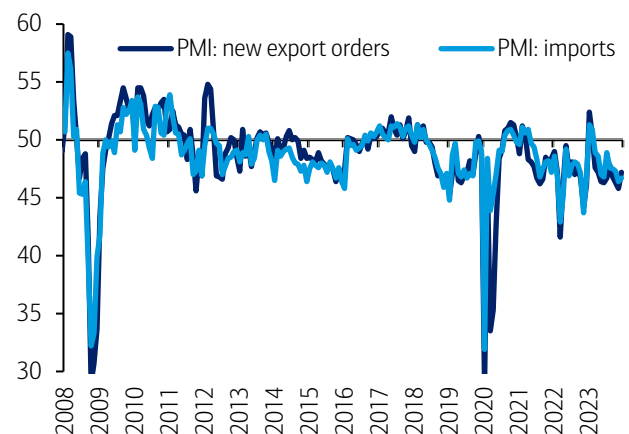


Source: BofA Global Research, NBS, CEIC

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Exhibit 4: New export order vs. imports

Sub-indices of imports and new export orders improved sequentially in Jan

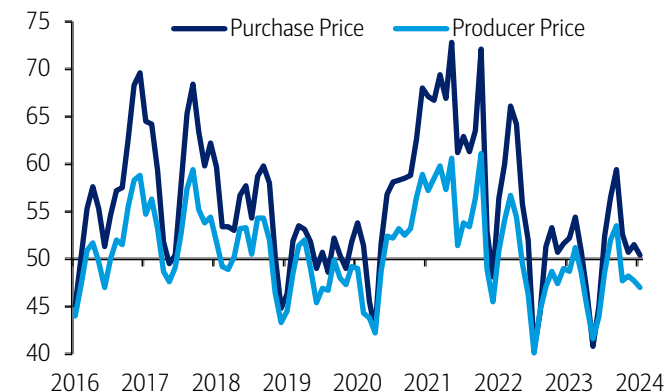


Source: BofA Global Research, NBS, CEIC

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Exhibit 5: Purchase price vs. producer price index

Purchase price index moderated to 50.4 in Jan, while producer price index remained below 50

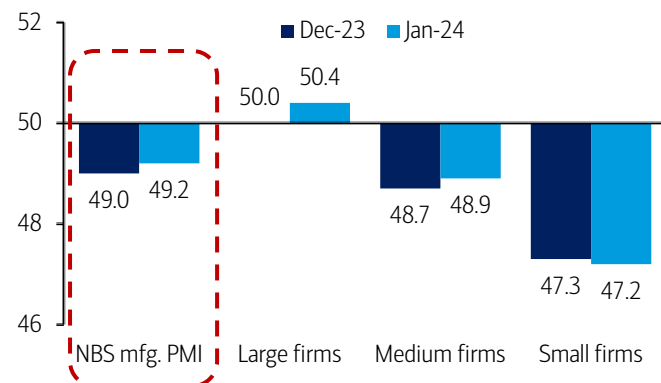


Source: BofA Global Research, NBS, CEIC

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Exhibit 6: NBS manufacturing PMI by enterprise type

PMI of large firms rose to 50.4 while that of small & medium firms stayed weak for another month

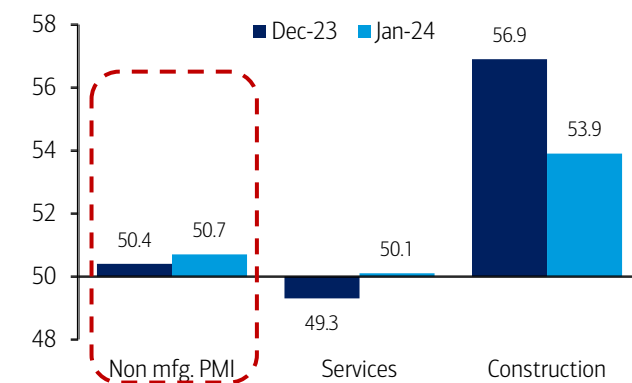


Source: BofA Global Research, NBS, CEIC

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Exhibit 7: NBS non-manufacturing PMI breakdown

Non-mfg. PMI inched up to 50.7, driven by robust construction PMI and improved service



Source: BofA Global Research, NBS, CEIC

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