

China Watch

February NBS manufacturing PMI still points to weak industrial activities

Exhibit 1: Manufacturing PMI and its breakdown

Manufacturing PMI inched down to 49.1 in February

	Weight	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23
New orders	30%	49.0	49.0	48.7	49.4	49.5	50.5
Production	25%	49.8	51.3	50.2	50.7	50.9	52.7
Employment	20%	47.5	47.6	47.9	48.1	48.0	48.1
Supplier delivery times†	15%	48.8	50.8	50.3	50.3	50.2	50.8
Raw material inventory	10%	47.4	47.6	47.7	48.0	48.2	48.5
Manufacturing PMI		49.1	49.2	49.0	49.4	49.5	50.2

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

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Feb mfg. PMI inched down; non-mfg. PMI improved further

NBS mfg. PMI inched down to 49.1 in Feb from 49.2 in Jan, largely in line with the market consensus (49.0) and our forecast (49.2). The slightly lower reading versus last month was partly affected by fewer working days due to the calendar effect of Lunar New Year (LNY) holiday, yet it continued to underscore weak industrial demand.

By breakdown, the production sub-index fell below 50 (49.8) for the first time in 9 months, while new orders remained steady at 49.0. Employment (47.5) and raw material inventory (47.4) both slipped slightly. Supplier delivery times dropped to 48.8 from 50.8 previously amid the LNY holiday, which artificially boosted the headline PMI by 0.3ppt.

Non-mfg. PMI picked up further to 51.4 (vs. 50.7 in Jan), beating the market consensus of 50.7. The improvement was driven by services PMI (51.0, vs. 50.1 in Jan) amid the holiday travel & tourism boom. Construction PMI edged down to 53.5 from 53.9 in Jan.

Small & medium firms fared worse; trade indices still <50

Among the manufacturing sectors, the production and new orders sub-indices have stayed in expansion zone for the food & beverage, medicine, non-ferrous metal and electrical machinery & equipment industries for two months in a row. In contrast, the chemical & plastics and ferrous metal industries saw both of the indices below 50. For non-manufacturing sectors, air transportation and entertainment PMIs were above 60.

By firm size, PMI of larger firms stayed steady at 50.4 in Feb, while that of small & medium firms remained weak at 46.4 and 49.1 respectively (vs. 47.2 and 48.9 previously). New export orders (46.3) and imports (46.4) both stayed sluggish.

Weak industrial demand makes a strong case for easing

In contrast with the NBS data, the Feb Caixin mfg. PMI that was also released this morning showed a slight improvement and remained in expansion (50.9). We do not think that is a tell-tale sign that industrial activities are already back in expansion. In our view, the NBS PMI offers a clearer picture (due to sample, see [previous June 1 report](#)) and still underscores fragile industrial demand. Therefore, the strong LNY services data by itself is unlikely to undermine the need for more policy easing. We expect a step-up on fiscal support to be revealed at the upcoming NPC on March 5 (see [Feb 28 preview](#)).

01 March 2024

GEM Economics
Asia | China

Miao Ouyang
China & Asia Economist
Merrill Lynch (Hong Kong)
+852 3508 6745
miao.ouyang@bofa.com

Helen Qiao
China & Asia Economist
Merrill Lynch (Hong Kong)
+852 3508 3961
helen.qiao@bofa.com

Abbreviations

NBS: National Bureau of Statistics

PMI: Purchasing Managers Index

RRR: Reserve Requirement Ratio

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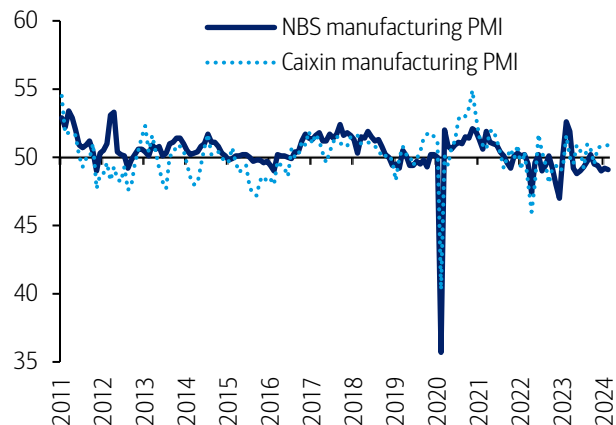
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Detailed breakdown of PMI

Exhibit 2: NBS manufacturing PMI vs. Caixin manufacturing PMI

NBS manufacturing PMI inched down in Feb, while Caixin PMI improved

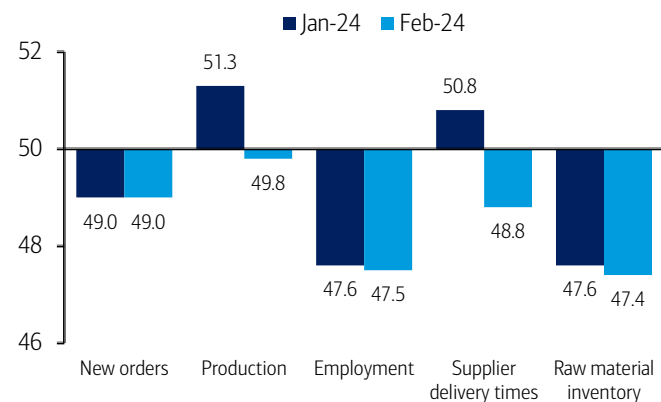


Source: BofA Global Research, NBS, CEIC

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Exhibit 3: NBS manufacturing PMI breakdown

Production fell into contraction in Feb

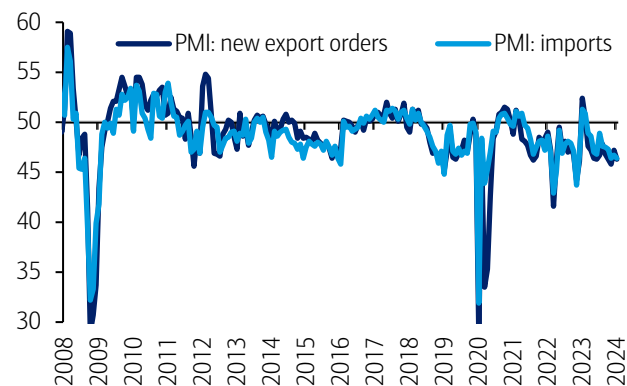


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Exhibit 4: New export order vs. imports

Sub-indices of imports and new export orders edged down in Feb

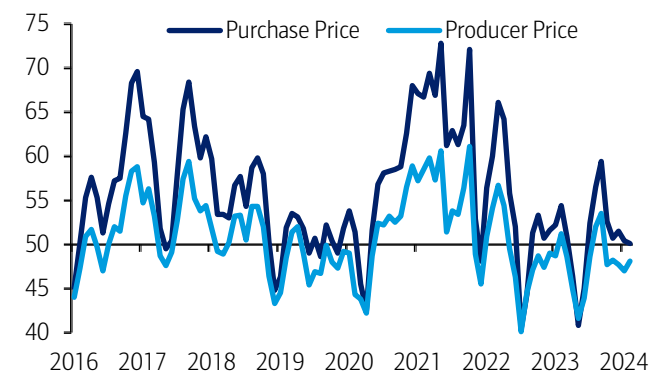


Source: BofA Global Research, NBS, CEIC

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Exhibit 5: Purchase price vs. producer price index

Purchase price index moderated to 50.1 in Feb, while producer price index remained below 50 (48.1)

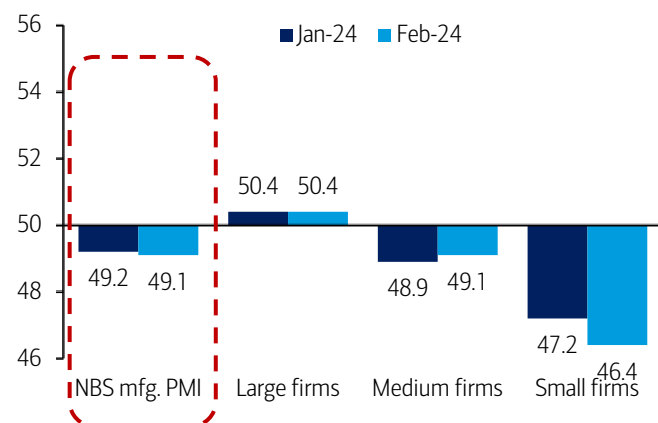


Source: BofA Global Research, NBS, CEIC

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Exhibit 6: NBS manufacturing PMI by enterprise type

PMI of large firms remained at 50.4 while that of small firms weakened further

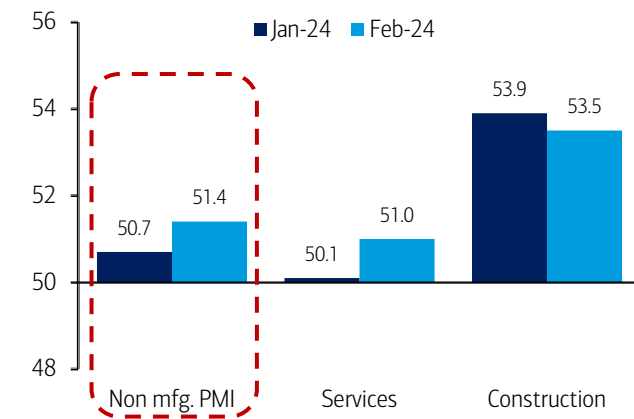


Source: BofA Global Research, NBS, CEIC

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Exhibit 7: NBS non-manufacturing PMI breakdown

Non-mfg. PMI rose to 51.4, driven by improved services PMI



Source: BofA Global Research, NBS, CEIC

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