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中国经济评论：5月PMI超预期回落，制造业预计继续走弱

China Economics Update: PMI fell further on softer manufacturing sector

中国5月制造业PMI降幅超预期，主要分项指数均走弱，这与国内高频数据和全球PMI走弱的趋势相符。

5月PMI表明制造业下行压力增大。制造业投资和出口去年三季度见顶后一路下滑，我们预计近期将持续疲软。

在外部风险及制造业下行压力攀升的背景下，消费支持政策已如我们预期推出。而货币政策料将维持稳健，继续有限度的宽松。

China's May PMI dropped more than expected in May. Major sub-indexes all weakened. This was in-line with softer domestic high-frequency data and declining global PMIs.

Today's PMI report points to further downward pressure on the manufacturing sector. We expect manufacturing investments and exports to remain soft in the near-term, as both slid further in Apr after peaking in 3Q18.

Given mounting external risks and downward pressure on the manufacturing sector, consumption policy supports were stepped up as we expected. That said, monetary policy should hold prudent going forward, with measured easing to continue.

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Indicators	May 18	2H18	1Q19	Apr 19	May 19 (cons)	May 19 (CCBIS)	May 19 (actl)
Manufacturing PMI	51.9	50.5	49.7	50.1	49.9	49.9	49.4
Non-manufacturing PMI	54.9	54.0	54.6	54.3	54.3	-	54.3
- Services PMI	54.0	52.8	53.6	53.3	-	-	53.5
- Construction PMI	60.1	61.3	60.6	60.1	-	-	58.6

Source: Bloomberg, CCBIS estimates

Manufacturing PMI cooled further in May

China's Manufacturing PMI eased 0.7 ppt to 49.4 in May after a 0.4ppt decline in the previous month, missing the market and our expectations (Bloomberg cons and CCBIS: 49.9).

Sub-indexes showed the slowdown was led by new orders and production:

- **New Orders and Production indexes eased** 1.6 ppt and 0.4 ppt respectively, together shaving 0.6 ppt from headline PMI. The sharp decline of new orders was driven by New Export Orders, which declined 2.7ppt from Apr. This pointed to weaker external demand, in-line with the softer manufacturing PMI readings in major advanced economies like the US and Eurozone. Concurrently, the Import Index also slowed at a similar pace. The further slowdown in the Production Index was consistent with other domestic high frequency indicators such as coal consumption by major power plants.
- **Input prices fell and suppliers' delivery time shortened, pointing to weaker demand.** The Purchasing Price Index and Producer Price Index both eased in May, dropping 1.3ppt and 3.0ppt respectively. This was in-line with falling global commodity prices and high-frequency PPI indicators. The decline in output prices suggest PPI will drop sequentially. Suppliers' delivery time, a reverse indicator of PMI, shortened in May. This, together with falling prices, suggests weaker domestic demand.
- **Business Expectation and Employment indexes also eased.** The Production and Business Expectation Index fell 2.0 ppt after strong improvement in 1Q. Against the backdrop of cooler demand and expectations, the PMI Employment Index also eased 0.2ppt to 47.0, softer than its average reading in 1Q.

Non-manufacturing PMI held stable, supported by services

Non-manufacturing PMI stayed unchanged at 54.3, in-line with market expectations.

Service PMI strengthened by 0.2ppt from the previous month. On the other hand, Construction PMI softened, falling 1.5 ppt in May after a 1.6ppt decline in Apr but the Construction Business expectation index recovered by 2.2ppt after two months of decline.

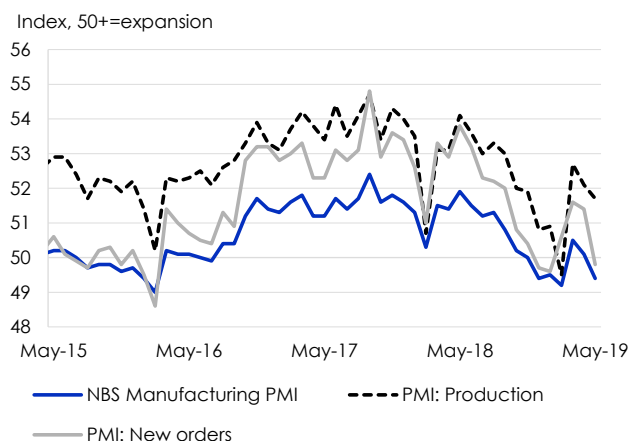
Our view

The notable drop in China's PMI and softer global readings are a reminder that the softness in global trade has prolonged into May. At home, coal consumption by major power generators slowed in May, while other high-frequency demand data softened. We expect manufacturing investments and exports to have remained soft in the near-term. The tax cut is expected to provide some alleviation, but may not fully cancel out the external pressures.

That said, housing investments should remain as the bright spot, as land sales surged in May in value terms. Housing sales in 30 major cities also recovered modestly. Special local government bond issuances held at a steady pace, suggesting infrastructure investment recovery is still on track. As for price indicators, the drops in both input and output producer prices suggest PPI could fall month-over-month in May, albeit marginally.

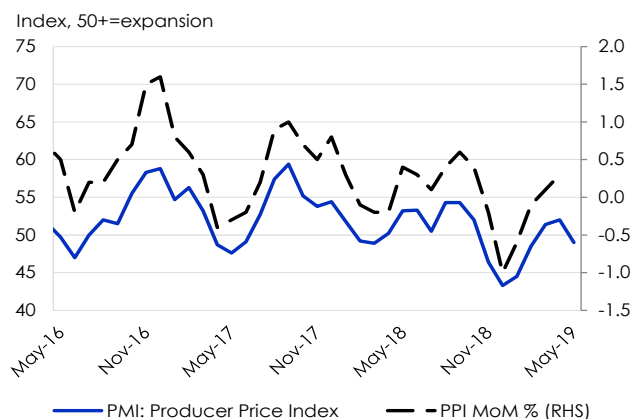
Given mounting external risks and downward pressure on the manufacturing sector, consumption policy supports were stepped up as we expected. Following Guangdong's announcement to relax auto registrations, we expect more local governments to announce consumption-supporting plans, in particular for home appliances, consumer electronics and autos. That said, the PBoC has been quiet in the interbank markets as of late, sitting on a rising 7-day repo rate. Officials have maintained a rather neutral tone for policy direction. We expect monetary policy to hold prudent, with measured easing to continue.

Fig 1. Production and new orders eased the most in May



Source: NBS, CEIC, CCBIS

Fig 2. Output prices fell amid falling global commodity prices



Source: NBS, CEIC, CCBIS

Table 1: PMI breakdown

	May-18	1Q18	2Q18	3Q18	4Q18	1Q19	Apr-19	May-19
NBS Manufacturing PMI	51.9	51.0	51.6	51.1	49.9	49.7	50.1	49.4
Production	54.1	52.4	53.6	53.1	51.6	51.0	52.1	51.7
New orders	53.8	52.3	53.3	52.2	50.3	50.6	51.4	49.8
Raw materials inventory	49.6	49.2	49.3	48.5	47.2	47.6	47.2	47.4
Employment	49.1	48.5	49.0	49.0	48.1	47.6	47.2	47.0
Supplier delivery times	50.1	49.2	50.2	49.8	50.1	50.0	49.9	50.9
New export orders	51.2	49.9	50.6	49.1	46.8	46.4	49.2	46.5
Backlog orders	45.9	45.4	45.9	45.9	44.2	44.6	44.0	44.3
Finished goods inventory	46.1	47.0	46.5	47.3	48.0	46.8	46.5	48.1
Purchases	53.0	52.2	52.8	51.6	50.5	49.5	51.1	50.5
Imports	50.9	50.5	50.4	49.1	46.9	46.9	49.7	47.1
Purchasing Price Index	56.7	55.5	55.8	57.6	51.0	50.6	53.1	51.8
Producer Price Index	53.2	50.0	52.2	53.0	47.2	48.1	52.0	49.0
Production and business expectations	58.7	57.9	58.3	56.7	54.4	55.2	56.5	54.5
Large enterprises	53.1	52.4	52.7	52.2	50.8	51.3	50.8	50.3
Medium enterprises	51.0	49.8	50.5	49.7	48.4	48.0	49.1	48.8
Small enterprises	49.6	47.8	49.9	49.9	49.2	47.3	49.8	47.8
NBS Non-manufacturing PMI	54.9	54.8	54.9	54.4	53.7	54.6	54.3	54.3
Services	54.0	53.9	53.9	53.3	52.3	53.6	53.3	53.5
Construction: Business Activities	60.1	59.6	60.5	60.6	61.9	60.6	60.1	58.6
Construction: New Business	54.2	51.4	54.1	53.9	56.4	55.2	54.6	52.1
Construction: Business Expectation	65.1	65.7	65.0	65.0	66.3	65.6	61.9	64.1
PMI Composite Production Index	54.6	53.8	54.4	53.8	52.8	53.2	53.4	53.3

Rating definitions:**Outperform (O) – expected return > 10% over the next twelve months****Neutral (N) – expected return between -10% and 10% over the next twelve months****Underperform (U) – expected return < -10% over the next twelve months****Analyst certification:**

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