

China | Upbeat August PMIs point to a diminished tail risk for China's economy

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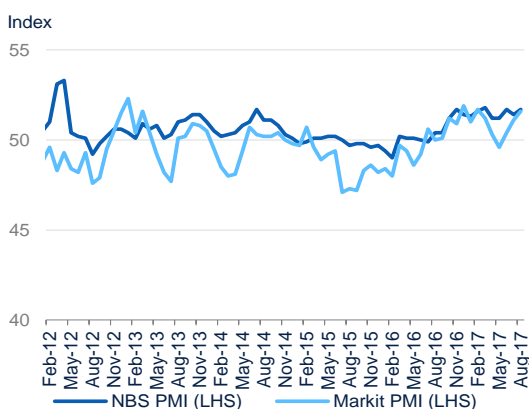
Despite that July activity indicators slightly disappointed the market, China's economy seemingly resumed its momentum in August. The official manufacturing PMI, which was released by NBS yesterday, picked up to 51.7 from 51.4 of the previous month (versus consensus: 51.3). It has been in the expansionary territory for 18 months in a row. Meanwhile, the Caixin China Manufacturing PMI, which includes a survey sample tilting toward SMEs and exporters, surged to 51.6 from 51.1 in the previous month, beating the market consensus at 51.0. (Figure 1) The soaring Caixin PMI and NBS manufacturing PMIs suggested a resilient growth momentum in August. As a result, the tail risk of a hard-landing scenario this year has substantially diminished.

However, some caveats are noteworthy: although the July PMIs were upbeat, a number of activity indicators in July, in particular industrial production, urban fixed-asset investment, and to a less extent, retail sales were all below market expectations. In addition, the strong growth momentum could prompt the authorities to press ahead with their deleveraging campaign in the financial sector to address shadow banking problem and debt overhang. Looking ahead, it remains a challenge for the authorities to balance between defusing risks and maintaining a decent growth rate.

NBS PMI sub-categories indicate growth momentum resumed in August

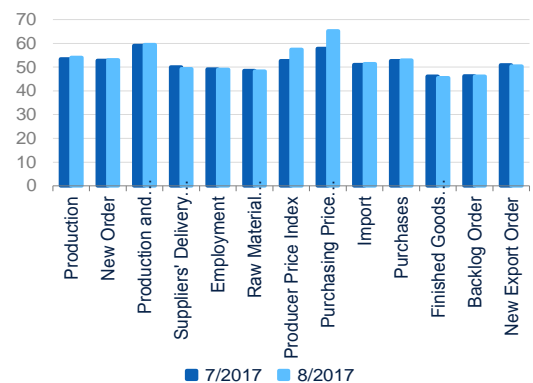
On the supply side, production index accelerated to 54.1 from the last month's reading at 53.5. Both finished goods inventory index and raw material inventory index declined, indicating a new round of inventory re-stocking might begin. In addition, the business activity expectation index surged to 59.5 from 59.1, suggesting a positive market sentiment. On the demand side, several price indicators, such as raw material price index and PPI index significantly picked up (65.3 and 57.4 respectively), mainly due to the soaring global commodity price in August. Moreover, new order index increased to 53.1 from 52.8 previously, as manufacturing sector has gained its momentum due to strong domestic demand. The only exception is new export order index marginally decreased due to the sluggish external demand and strong RMB appreciation, but still remained above the watershed level of 50. (Figure 2)

Figure 1. Both NBS PMI and Caixin PMI picked up significantly in August



Source: BBVA Research, CEIC

Figure 2. The sub-NBS PMI outturns indicate the growth is broad-based



Source: BBVA Research, CEIC

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