

Economic Watch

# China | August PMIs continued to expand

Jinyue Dong / Betty Huang

September 1<sup>st</sup>, 2020

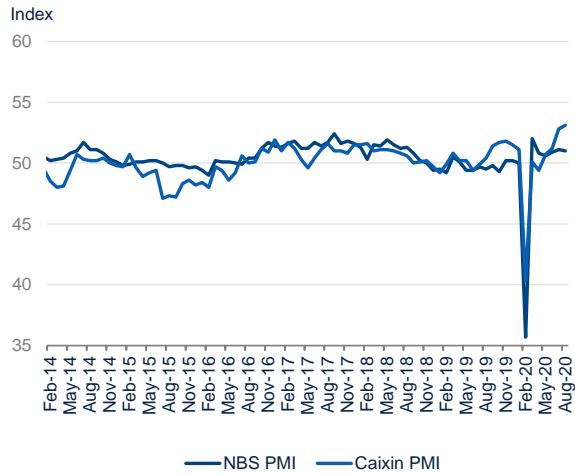
The latest August manufacturing Purchasing Managers' Index (PMI) published by the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing (CFLP) came out at 51, slightly edging down from 51.1 in the previous month and lower than the market consensus of 51.2. Despite of the marginal decrease, it is still above the watershed level of 50 that separates expansion from contraction, marking the 6th consecutive expansion after the government lifted lockdown measures due to the COVID-19 pandemic. On the other hand, Caixin PMI, a private gauge of Chinese factory activities which includes a survey sample tilting toward SMEs and exporters, rose to 53.1 in August from 52.8 in July (consensus: 52.5), indicating a continuing recovery of manufacturing activities. (Figure 1)

By component, the slight decrease of August NBS PMI was mainly dragged by the production index, which dropped to 53.3 from 54 in the previous month, partially affected by the floods in the southern part of China where half of the agricultural products are produced. On the other hand, demand side components seemed to improve in August. In particular, new orders index continued to expand, which rose to 52 from 51.7 in July. New export orders index also jumped to 49.1 from 48.4 in July, although still in the negative territory amid global recession. Meanwhile, the production and business expectation index also accelerated to a high level at 58.6 from 57.8 in the previous month. Price index also improved, in line with the increasing inflation outturns in the recent months. In particular, purchasing price index increased for a fourth consecutive month at 58.3 from 58.1 in July, while the production price index rose for a third consecutive month at 53.2 from 52.2 in July. Although we are concerned about China's unbalanced recovery, specifically the pace of demand side rebound lagging behind that of supply side, the accelerations of demand components of NBS PMI indicate that this particular downside risk is kind of mitigating at the current stage. (Figure 2)

By enterprise size, the NBS PMIs of large and medium-sized enterprises remained in the expansionary region at 52 and 51.6 respectively, while smaller firms dropped further into contraction territory to 47.7 in August from 48.6 in the previous month, calling for more targeted monetary and fiscal policy support to SMEs in order to rebalance the unbalanced recovery path.

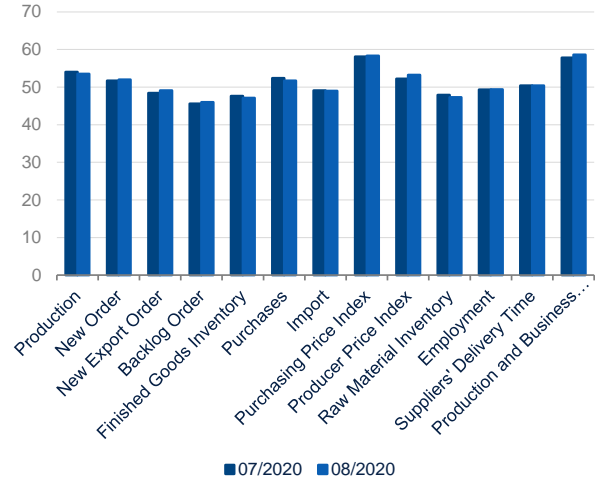
Although manufacturing activities maintained the recovery momentum in August, challenges remain ahead. The COVID-19 pandemic has led to lot of uncertainties to external demand, and the recovery on supply and demand side continued to be uneven although mitigating to some degree in August, which we believe are the two main risks of the 2H economic outlook. Moreover, floods around the Yangzi River have disrupted production in the recent months albeit we expect the impact could be transitory. Altogether, we maintain our baseline scenario that China's economy will undergo a V-shape recovery, that means, the GDP growth rate will steadily climb up to 5% in Q3 and 6% y/y in Q4, concluding 2020 with a full-year growth outturn of 2.2%.

Figure 1. **NBS PMI and CAIXIN PMI CONTINUED TO BE IN THE EXPANSIONARY TERRITORY**



Source: CEIC and BBVA Research

Figure 2. **THE DEMAND SIDE COMPONENTS OF NBS PMI SEEM TO IMPROVE IN AUGUST**



Source: BBVA Research and CEIC

## DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

### ENQUIRIES TO:

BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).  
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25  
bbvaresearch@bbva.com www.bbvaresearch.com

