



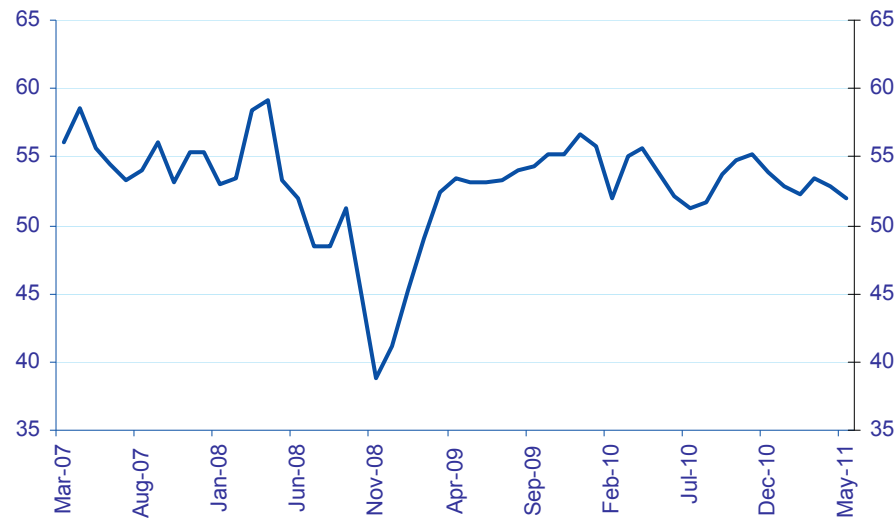
## China: Moderation in May PMI heralds a healthy trend toward a soft landing

The Purchasing Manufacturing Index (PMI) in May eased to 52.0% from 52.9% in April, in line with our expectations (BBVA: 51.9%) and marking a third straight month of moderation since March. Encouragingly, the moderation trend is quite mild, given the economy is still within the expansion zone (50+). It should help reinforce investors' confidence that China can achieve a soft-landing, as the authorities continue seeking to avert overheating and tame inflation through monetary tightening. Our full-year GDP growth forecast remains 9.4%, consistent with a soft-landing base scenario. On the policy front, we anticipate further gradual monetary tightening in the form of interest rate hikes and increases in the required reserve ratio (RRR) in the months ahead.

- PMI in May further declined to 52.0% from 52.9% in April (Chart 1), in line with our expectation but slightly higher than market consensus (BBVA: 51.9%; consensus: 51.6%). The outturn is the third straight monthly decline from March but the trend of moderation is mild, indicating that the probability of an abrupt slowdown is quite small. That said, the PMI is still within the expansion zone (+50). The previously-released private-sector (HSBC) PMI also registered a slight decline, to 51.6% in May from 51.8% in April. (The HSBC PMI is based on a smaller group of private companies.)
- Looking into the detailed breakdown of the official May PMI, all the main subcomponents (including production, new orders, employment, supplier delivery and raw material inventory), declined from previous month to varying degrees. In particular, new orders (with a weight of 30%) and raw material inventory (10%) have declined by 1.7 and 2.5 percentage points respectively. The decline in the latter suggests that firms have begun to destock. On the external front, both new export orders and imports are almost flat in comparison to their levels of previous month.
- Another significant and welcome decline was seen on input price subcomponent, which dropped to 60.3% in May from 66.2% in April, reflecting an easing of inflation expectations due to a recent decline in commodity price as well as the effects of monetary tightening. The moderation of input prices could help to mitigate producer and consumer price inflation. Nevertheless, the ongoing drought in southern and eastern China may add further pressure on food prices in the coming months. In this light, we anticipate that the authorities are unlikely to halt their monetary tightening in near term.
- Overall, the PMI outturn of May brought more signs of moderation but suggests the growth momentum is still robust. It should be interpreted as a welcome news and help allay concerns of a hard-landing.

Chart 1: Slight decline in PMI in line with soft-landing scenario

## PMI



Source: NBS and CEIC

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