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Economic Insight

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China's official PMIs rebounded significantly in March

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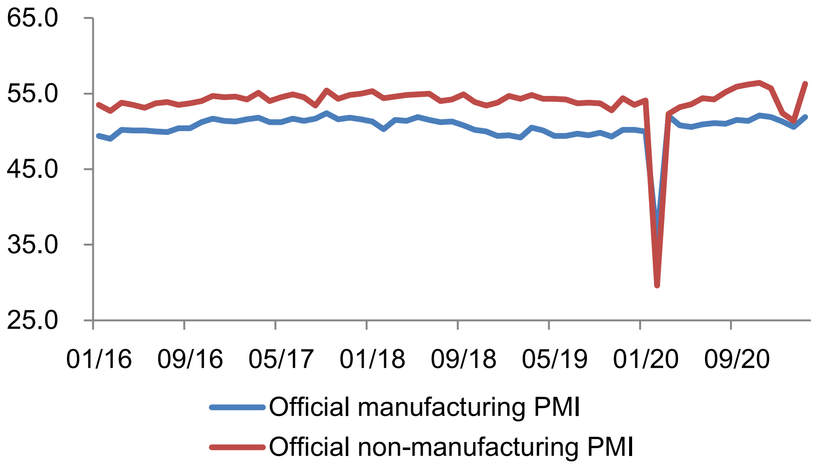
- China's official manufacturing PMI advanced significantly from 50.6 in Feb to 51.9 in Mar, its 13th month in expansion. The improvement in Mar was mainly due to the recovery of the global economy, including that of China, and the seasonal rebound in the month after the CNY holiday
- With the continuous vaccination and effective prevention and control of the pandemic, the non-manufacturing business activity index rose sharply to 56.3 in Mar from 51.4 in Feb
- Overall, official manufacturing and non-manufacturing PMI data for Mar showed a continued rebound in China's economy, particularly on the demand side. The composite PMI output index for Mar hit a four-month-high at 55.3, up 3.7ppt MoM
- We expect GDP growth to exceed 15% in 1Q21. As economic growth accelerates, employment is expected to gradually improve. The manufacturing employee index was 50.1 and the non-manufacturing employee index was 49.7 in Mar, up 2.0ppt and 1.3ppt MoM. In addition, as the global economy begins to revive and a new round of fiscal stimulus in the US is about to take effect, China's export growth is expected to continue its robust streak to drive the economy

China's official manufacturing PMI jumped from 50.6 in Feb to 51.9 in Mar, its 13th month in the expansion territory (Exhibit 1). The obvious improvement in Mar was mainly due to the continued recovery of the global economy, including that of China, and the seasonal rebound in the month after the CNY holiday. To note, PMIs reflect changes of indicators on a MoM basis instead of a YoY basis commonly used for macroeconomic analysis. Historically, PMIs in the month after the CNY holiday usually advanced even after seasonal adjustment. The CNY holiday had seven less working days for Feb compared to Mar in 2021. In addition, with the acceleration of the global COVID-19 vaccination and gradual resumption of economic activities globally, strong external demand also drove up the manufacturing PMI in Mar.

Exhibit 1: China official PMIs (%)



Source(s): NBS, ABCI Securities

The five sub-indices of the manufacturing PMI all picked up in Mar from the previous month, with the production index, the new order index, and the employee index surging above the critical point; the supplier distribution time index was at the critical point while the raw material inventory index was below it. The production index rallied to 53.9 in Mar from 51.9 in Feb as production accelerated after the CNY holiday. Driven by the recovery of domestic and external demand, the new order index in Mar climbed from 51.5 in Feb to 53.6. The new export order index and import index also rose from 48.8 and 49.6 in Feb to 51.2 and 51.1 in Mar, respectively. Affected by the rising international commodity prices, the input price index and output index increased further to 69.4 and 59.8 in Mar from 66.7 and 58.5 in Feb, respectively, suggesting that PPI inflation in Mar is likely to rise on a MoM basis, supporting a recuperation of industrial profits in the upstream sector. It is worth noting that the input price has been growing significantly faster than the output price; the input price index was 9.6ppt higher than the output price index in Mar, which implies that industrial profits in the lower and middle sectors are likely to be under pressure. In addition, new momentum continues to grow. The equipment manufacturing PMI added 0.7ppt MoM in Mar, and the high-tech manufacturing PMI increased by 0.3ppt MoM to 53.9.

By enterprise size, the PMIs of large, medium, and small enterprises in Mar was 52.7, 51.6, and 50.4, respectively, up 0.5ppt, 2.0ppt, and 2.1ppt MoM, standing at above the critical point. Rebounding PMI in the manufacturing sector of small and medium-sized enterprises reflects the strengthening of supportive macro-policy support for SMEs and private enterprises.

With the continuous vaccination and effective prevention and control of the pandemic, the non-manufacturing business activity index rose sharply to 56.3 in Mar from 51.4 in Feb. By sector, the index of business activity in the services sector was 55.2, up 4.4ppt MoM; the business activity indices of the 21 service industries surveyed were all above the threshold. Among them, railway transportation, air transportation, telecommunications, broadcasting, television and satellite transmission services, internet software and information technology services, money financial services, and insurance activity indices all exceeded 60.0. The business activity indices of accommodation, leasing, business services, and resident services, which were greatly affected by the regional COVID-19 outbreak at the beginning of 2021, bounced back to the prosperous range. The construction business activity index was 62.3, up 7.6ppt from the previous month, indicating a significant acceleration in construction.

Overall, the official manufacturing and non-manufacturing PMI data for Mar showed a continued rebound in China's economy, particularly on the demand side. The composite PMI output index for Mar was 55.3, up 3.7ppt from the previous month, hitting a four-month high. We expect GDP growth to exceed 15% in 1Q21. As economic growth quickens, employment is expected to gradually improve. The manufacturing employee index was 50.1 and the non-manufacturing employee index was 49.7, up 2.0ppt and 1.3ppt MoM. In addition, as the global economy begins to revive and a new round of fiscal stimulus in the US is about to take effect, China's export growth is expected to extend its momentum to support growth.

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (~10%)
Hold	- Market return rate (~-10%) ≤ Stock return rate < Market return rate (~10%)
Sell	Stock return < - Market return (~-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-20 CAGR at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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