



## Economic Insight

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### China's official non-manufacturing PMI better than expected in August

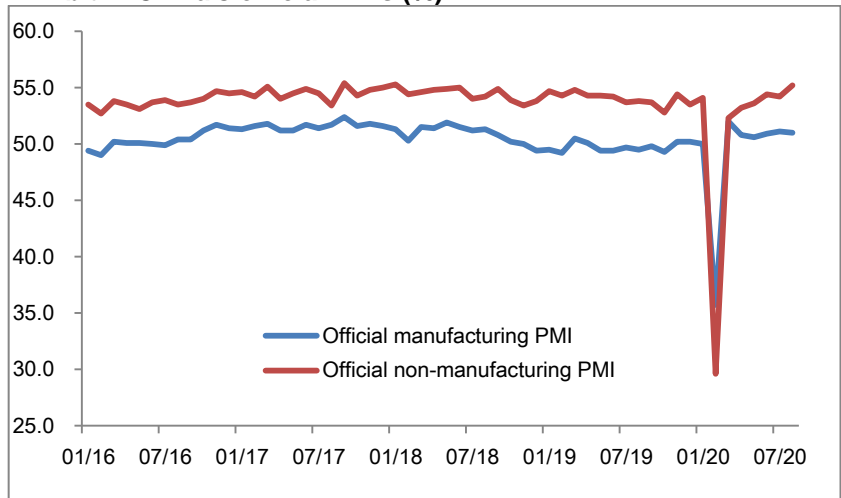
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- China's official manufacturing PMI eased slightly to 51.0 in Aug from 51.1 in July, below the market forecast of 51.2, attributable to the lackluster performance of small manufacturing enterprises
- The index of non-manufacturing business activity rebounded to 55.2 in Aug from 54.2 in July, the highest level in more than two years, driven by an accelerated recovery in the services sector
- Overall, official manufacturing and non-manufacturing PMI data for Aug showed continuous recuperation in the Chinese economy, especially on the demand side. The output index of composite PMI was 54.5 in Aug, up 0.4ppt from the previous month and the highest level in two years. In the future, fiscal and monetary policies would be geared to reducing production cost and financial cost of small manufacturing enterprises through multiple channels

China's official manufacturing PMI eased slightly to 51.0 in Aug from 51.1 in July, below the market forecast of 51.2 (Exhibit 1), attributable to the lackluster performance of small manufacturing enterprises. The manufacturing PMI of small enterprises was just 47.7 in Aug, down 0.9ppt MoM.

Exhibit 1: China's official PMIs (%)



Source(s): NBS, ABCI Securities

For the five sub-indices under the manufacturing PMI, the production index, the new order index, and supplier distribution time index were above the 50 mark; the raw material inventory index and employee index were below the threshold. The production index eased to 53.5 in Aug from 54.0 in July due to heavy rains and floods in southern region. Both domestic and external demand accelerated in Aug, and the overall demand continued to improve - the new orders index and the new export order index rose to 52.0 and 49.1 in Aug from 51.7 and 48.4 in July. The input price index and the output price index advanced to 58.3 and 53.2 in Aug from 58.1 and 52.2 last month, suggesting the headline PPI in Aug will likely advance and support growth in industrial profit. It is worth noting that high-tech manufacturing PMI and equipment manufacturing PMI were 52.8 and



52.7 in Aug, up 1.5ppt and 0.9ppt MoM, indicating the acceleration of new economy has boosted the overall manufacturing activity.

By enterprise type, the manufacturing PMI of large enterprises remained at 52.0 in Aug; the manufacturing PMI of medium enterprises was 51.6, up 0.4ppt MoM; the manufacturing PMI of small enterprises was 47.7, down 0.9ppt from July. The decline shows that small manufacturing entities are still facing difficulties in production and operation. According to the survey of National Bureau of Statistics, the proportions of small manufacturing enterprises reporting insufficient market demand and capital shortage were more than 50% and 40%, respectively.

The index of non-manufacturing business activity rebounded to 55.2 in Aug from 54.2 in July, the highest level in more than two years, thanks to the accelerated recovery in the services sector. The index of business activity in the services sector was 54.3, up 1.2ppt MoM. The index of business activity in the construction industry was down 0.3ppt MoM but remained in the high boom range at 60.2. By industry category, the indices of business activities in the railway transport industry, air transport industry, accommodation industry, telecommunications, radio and television broadcasting, and satellite transmission services were above 60.0. However, the indices of business activities in capital market services and property industry were lower than the critical point, indicating decline in total business volume. Business activity expectations index was high at 62.1, indicating strong business confidence for future.

Overall, official manufacturing and non-manufacturing PMI data for Aug indicates recuperation in the Chinese economy, especially on the demand side. The output index of composite PMI was 54.5 in Aug, up 0.4ppt MoM, hitting the highest level in two years. In the future, fiscal and monetary policies would be geared to reducing production cost and financial cost of small manufacturing enterprises through multiple channels.



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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ 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 2008-19 CAGR at 10%)

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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