

# Macro Note

## China: Further Growth Downgrade On The Back Of Unprecedented Drop In PMIs

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China's official manufacturing PMI plunged 14.3 points to a record low of 35.7 in February (Jan: 50.0) and this is well-below the previous record low of 38.8 in November 2008 during the Global Financial Crisis. The decline was broad-based across the key components of the manufacturing PMI as well as the size of enterprises covered in the survey. Production (Feb: 27.8; Jan: 51.3), new export orders (Feb: 28.7; Jan: 48.7), new orders (Feb: 29.3; Jan: 51.4) and employment (Feb: 31.8; Jan: 47.5) were all down sharply in February.

More worrying was the non-manufacturing PMI which fell by an even sharper 24.5 points to 29.6 in February (Jan: 54.1). The official non-manufacturing PMI has never fallen into contraction (defined as reading below 50) based on data since 2007 and the previous low was 50.8 in December 2008. Tertiary sector which accounts for 53.9% of GDP could be under greater pressure than the secondary sector from the COVID-19 outbreak.

In data released this morning, the decline in the private sector Caixin manufacturing PMI was more moderate, by 10.8 points to 40.3 in February from 51.1 in January. This also came in below market's expectation of 46.0. The previous low was in November 2008 which was 40.9.

All these suggest that 1Q20 GDP would be much weaker than what was expected earlier especially since factories in China are expected to take longer to return to their capacity prior to the COVID-19 outbreak. The National Bureau of Statistics expects the work resumption rate to increase towards 90% by end-March for the mid- and large-enterprises in the PMI survey from 78.9% on February 25. Beyond the first quarter, the recovery will be limited by how much production can accelerate as companies are unable to make up fully the loss in output due to capacity constraints. The spread of COVID-19 outside of China is also another legitimate concern as it dampens global demand as well as the recovery in the tourism and private consumption demand in China.

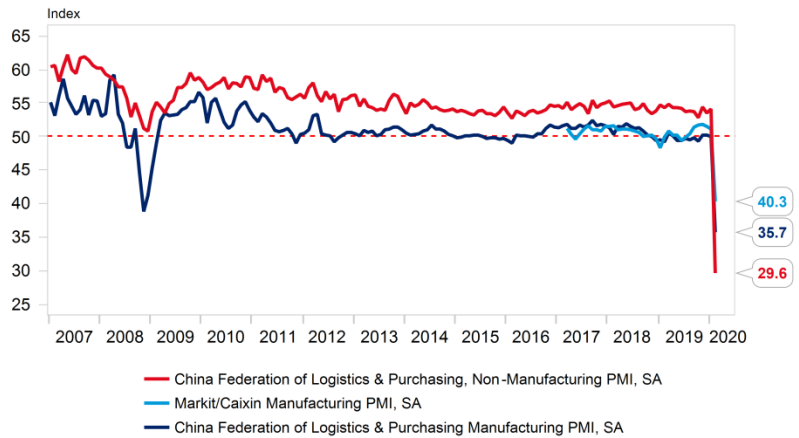
Taking into consideration the downside risks, we have downgraded our growth forecast for China this year. We now expect 1Q20 GDP growth at 2.9% y/y which means that China may report quarter-on-quarter (seasonally-adjusted) GDP contraction in 1Q20, the first for the data that stretches back to 1992. We expect GDP growth to rebound to 5.3% y/y in 2Q20, 6.5% y/y in 3Q20 and 6.1% y/y in 4Q20. For the full-year 2020, GDP growth is likely to be around 5.3%, below the 5.7% that we have earlier projected.

China's GDP Growth Outlook							
	4Q19	1Q20F	2Q20F	3Q20F	4Q20F	2019	2020F
Revised Forecasts (y/y %)	6.0	2.9	5.3	6.5	6.1	6.1	5.3
Old Forecasts (y/y %)	-	5.4	5.6	6.2	6.4	-	5.7

Source: UOB Global Economics & Markets Research

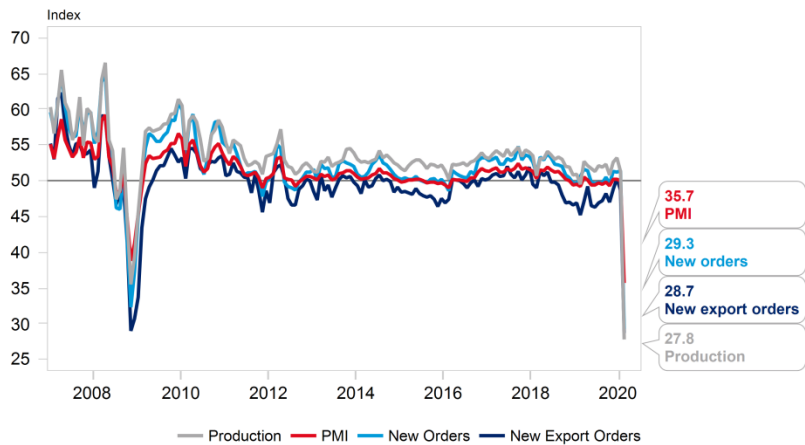
### China: Plunge In February PMIs

Source: Macrobond, UOB Global Economics & Markets Research



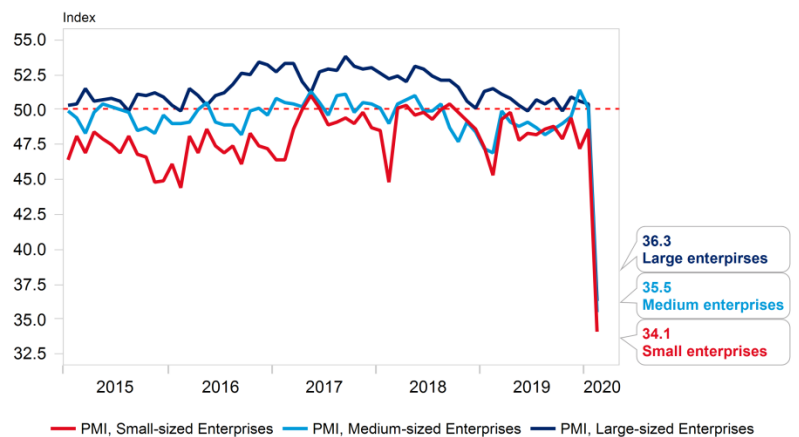
### China: CFLP Manufacturing PMI And Components

Source: Macrobond, UOB Global Economics & Markets Research



### China: CFLP Manufacturing PMI by Types of Enterprises

Source: Macrobond, UOB Global Economics & Markets Research



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