

Factory activity falls at slower pace after Covid-19 curbs ease

Caixin/Markit PMI rises as production resumes, improving from 26-month recorded low in April

Reuters in Beijing

The mainland's factory activity shrank less sharply in May as coronavirus curbs eased and some production resumed, a private sector survey showed yesterday, improving from a 26-month low in April.

The Caixin/Markit manufacturing purchasing managers' index (PMI) rose to 48.1 in May

from 46 the previous month and was slightly above a Reuters poll of 48. May's contraction was the second-sharpest slump since February 2020, suggesting the recovery remains fragile.

The 50-point index mark separates growth from contraction on a monthly basis.

Surveyed firms tied the output drop to the impact of lingering pandemic-related restrictions on operations and subdued customer demand.

A subindex for new orders fell for the third consecutive month in May but at a slower pace.

The gauge for new export orders also shrank less but remained in contraction for the 10th straight month. Some firms blamed the weakness in orders to the pandemic, increased difficulties in shipping items as well as the Russia-Ukraine war.

The private survey, focusing more on small firms and coastal regions, was in line with Tuesday's official manufacturing PMI which rose to 49.6 from 47.4 in April.

Given the easing of lockdowns in some regions where virus cases dropped and the phased reopening of business activities in Shanghai, most subindices under the Caixin PMI fell less sharply.

However, "unlike most other gauges, the employment measure fell further into negative territory in May", said Wang Zhe, senior economist at Caixin Insight Group. "The negative effects from the latest wave of domestic outbreaks may surpass those of 2020. It's necessary for policymakers to pay attention to employment and logistics."

The average suppliers' delivery times continued to lengthen

sharply in May though logistics disruptions were not as widespread as in April. Business confidence fell to a five-month low.

"The Caixin manufacturing index rebounded last month thanks to the easing of virus containment measures. Taken together with the official survey, they suggest that a recovery in industrial output is under way. But we think it is likely to remain weak amid softening foreign demand," said Sheana Yue, China economist at Capital Economics.

"The surveys suggest that a recovery in factory output has started in May. And with an

48.1

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improving virus situation nationwide, we expect a further acceleration in the coming months.

"That said, we doubt the rebound will be strong. Even without further large-scale lockdowns, external headwinds will exacerbate the shift in foreign demand away from Chinese goods."

Even if policymakers strive to shore up the faltering economy, analysts say the control measures threaten Beijing's "around 5.5 per cent" growth target for the year.

"While its recovery from the first wave of Covid in early 2020 was aided by a surge in construction activity, property developers are now struggling to finance existing projects," Neil Shearing, group chief economist at Capital Economics, said on Tuesday.