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ECONOMY

China posts shock contraction in July factory activity

The foundation of country's economic recovery is still not sound, Xinhua commentary warns

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China's factory activity unexpectedly fell back to the shrinking range in July despite recent signs of moderate recovery in the world's No 2 economy.

The official manufacturing purchasing managers' index (PMI) slid from 50.2 in June to 49.0 last month, well below the 50-mark that separates growth from contraction on a monthly basis, according to data released by the National Bureau of Statistics (NBS) yesterday.

Analysts had estimated the reading would stay unchanged from June, according to mainland financial data provider Wind.

The official non-manufacturing PMI, which measures business sentiment in the services and construction sectors, also declined – to 53.8 from 54.7 in June – but still remained within expansion territory. The latest official composite PMI, which includes both manufacturing and services activity, dropped to 52.5 in July from 54.1 in June.

"On the whole, the level of economic sentiment in China has fallen somewhat, and the foundation for recovery still needs to be solid," Zhao Qinghe, senior statistician at the NBS, said.

In a commentary yesterday, state news agency Xinhua warned the country to be "soberly aware that at present, the foundation of China's economic recovery is still not sound, and it will take painstaking efforts to consolidate the momentum of improvement".

"Due to the impact of factors beyond expectation such as the complex and severe international environment and the shock of the domestic epidemic situation, China's economic operation still faces many risks and challenges," the commentary said.

Before the unexpectedly weak manufacturing PMI data, signs of recovery had continued to emerge last month, as key indicators for retail sales and industrial production had improved marginally in June.

China's industrial profits also rebounded in June, from a 6.5 per cent decline in May to 0.8 per cent growth – the first increase in two months that was driven by a loosening of coronavirus restrictions and resumption of manufacturing activity.

The Politburo, China's top decision-making body, defended the nation's zero-Covid policy at its economic meeting on July 28 while dodging mentions of the annual growth target of "around 5.5 per cent". That target was set in March, before the country's Omicron outbreaks, the Ukraine war and US rate increases.

China's gross domestic product growth plunged to 0.4 per cent in the second quarter, from 4.8 per cent in the first three months of the year.

Both the supply and demand sides of the manufacturing sector fell back to contraction last month just after rebounding to expansion in June, as shown by subindexes of production and new orders.

Zhao said the reasons for the decline in the manufacturing PMI were multifold, including off-season for production, insufficient market demand and low sentiment in high energy-consuming industries.

The ratio of companies reporting insufficient market demand had risen for four straight months to reach more than 50 per cent in July, Zhao noted.

"Insufficient market demand is the main difficulty faced by manufacturing enterprises at present, and the foundation for manufacturing recovery needs to be consolidated," he said.