

ECONOMY

BUSINESS ACTIVITY STILL UNDER PRESSURE

While power shortage has eased and property sector has gained policy support, zero-Covid policy remains the main constraint, analysts say

Andrew Mullen and Mia Nulimainarti

China's manufacturing and services sectors are set to remain under pressure this month from coronavirus outbreaks after a combination of heatwave-induced power shortages and a struggling property sector weighed on activity in August, according to analysts.

Although the official manufacturing purchasing managers' index (PMI) beat expectations, it remained in contraction for a second consecutive month in August after rising to 49.4 from 49 in July, the National Bureau of Statistics said yesterday.

The official non-manufacturing PMI, which measures business sentiment in the services and construction sectors, fell to 52.6 from 53.8 in July, although it came in better than expected.

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LARRY HU, ECONOMIST

"The soft reading is not so surprising as the Chinese economy was under multiple headwinds in August," said Larry Hu, chief China economist at Macquarie Group.

"Some of the headwinds have gone. Power rationing has eased as the weather is turning cooler and the rain finally came in Sichuan. More importantly, policymakers have rolled out a new round of policy easing with a focus on property since they returned to the public eye in mid-August.

"They also announced that the widely anticipated 20th Party Congress would begin on October 16, implying political uncertainties have largely been removed."

New waves of the Omicron coronavirus variant have been found in several large cities in China, with the tech hub of Shenzhen imposing partial lockdowns, while the likes of Chengdu, Shijiazhuang and

Tianjin have stepped up control measures.

Sichuan, including its provincial capital of Chengdu, found itself at the centre of the recent power shortage that shut down some industrial production to protect residential electricity supplies. Neighbouring Chongqing was also affected, with some construction work also suspended due to the heat.

"Economic activities stayed weak in August, partly due to the power shortage caused by heatwaves. As the weather cools, economic activities may improve modestly in the next few months, but the main constraint for the economy has not been removed," said Zhang Zhiwei, president and chief economist at Pinpoint Asset Management.

"We expect the zero-Covid policy to be revised after the [congress] meeting in October, which will help the economy normalise."

The strict coronavirus controls, the downward pressure on the housing sector and power shortages in Sichuan have been weighing on the slowing economy, with Standard Chartered, Goldman Sachs and Natixis slashing earlier last month their growth forecasts for China this year.

"Looking to September, although the heatwave will probably subside as summer concludes, the recent spread of Omicron to large cities, from Chengdu in the west to Shenzhen in the south to Shijiazhuang and Tianjin in the north [very close to Beijing], may weigh on business activity in both the manufacturing and services sectors," Nomura economists led by Lu Ting said.

They expect China's manufacturing PMI to remain weak at around 49.5 in September, while the non-manufacturing gauge would fall to 49.5.

Within the official manufacturing PMI, the new orders subindex rose to 49.2 in August from 48.5 in July, while the new export orders subindex increased to 48.1 from 47.4. The production subindex remained unchanged at 49.8.

Within the official non-manufacturing PMI, the construction subindex fell to 56.5 in August from 59.2 in July, while the service subindex declined from 52.8 to 51.9.

The official composite PMI, which includes both manufacturing and services activity, dropped to 51.7 from 52.5.