

# China

## Weak end to second quarter as PMI slips to one-year low

- **China Composite Output Index PMI eases to one-year low of 51.1 in June**
- **Weak export sales weigh on growth**
- **Slower rise in new business and subdued employment points to an unlikely growth pickup**

The Chinese economy rounded off the second quarter on a softer note with PMI data showing a loss of momentum since May. A weakening economic expansion in the service sector has added to earlier signs of sluggish manufacturing growth.

### Softer end to second quarter

The seasonally adjusted **Caixin China Composite Output Index PMI** edged down to 51.1 in June from 51.5 in May. While signalling output growth for the sixteenth consecutive month, the latest reading was the weakest for one year.

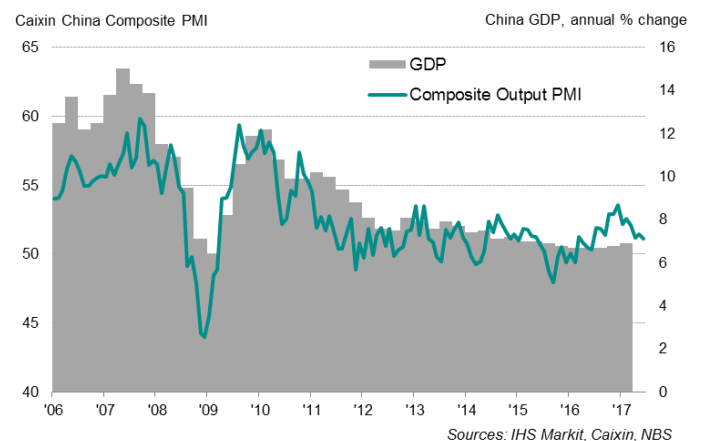
The June composite index was dragged down as service providers reported a slower rate of expansion in business activity in June. The manufacturing sector showed a pickup in production volumes, but the rate of growth remained subdued. The latest increase in manufacturing output was the second-weakest in the past year.

Overall, the average expansion seen in the second quarter (51.3) is down from that seen in the first three months of the year (52.3) and the lowest for a year, supporting the prevalent view of softer Q2 GDP growth and a slowing in the underlying pace of economic growth.

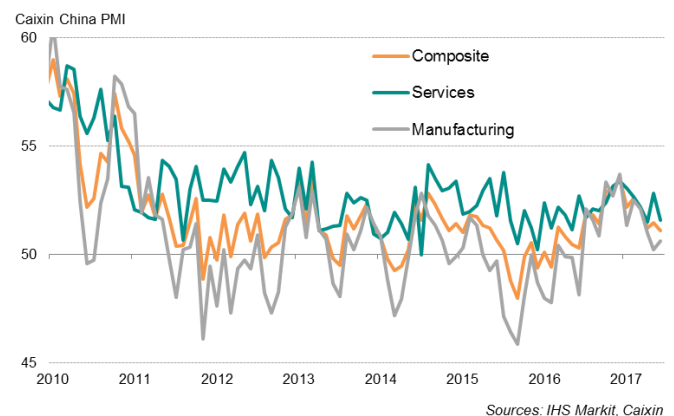
### Weak export growth

The slowing in growth can at least in part be explained by exports. Exports were a key driver for GDP growth in the first quarter. The National Bureau of Statistics reported that net exports of goods and services contributed positively to economic growth in the three months through to March, a development which had been signalled in advance by the Manufacturing PMI

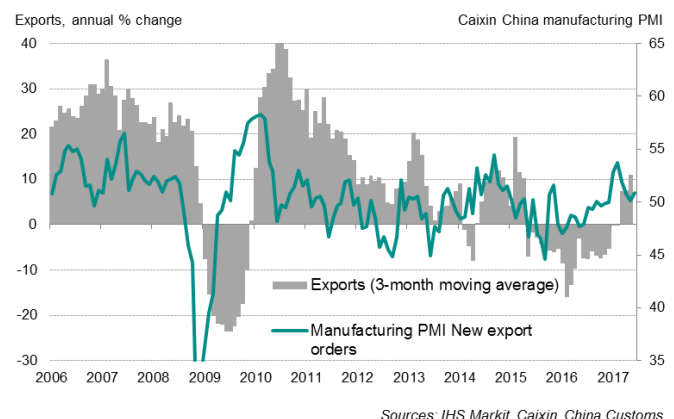
China PMI and economic growth



China PMI: manufacturing and service sectors



China PMI and exports



survey's New Export Orders Index rising markedly at the start of the year.

But a renewed weakening of growth in new export sales signalled by recent PMI surveys suggests that external demand may not contribute as much to second quarter economic growth as in the first quarter.

### Cloudy outlook

The PMI survey indicators suggest that the likelihood of growth picking up in coming months appears low. New business continued to grow at a modest pace at the end of the second quarter, and overall employment growth remained elusive. A modest increase in service sector jobs was insufficient to offset layoffs in the manufacturing sector. While business optimism about the year ahead perked up in June, the average Future Output Index reading for the second quarter was lower than seen in the first three months of 2017.

### Inflation eases

An easing in inflationary pressures meanwhile accompanied the growth slowdown in the second quarter. The increase in costs was noticeably slower compared to that recorded in the preceding two quarters, reflecting lower prices for raw materials, notably oil. The reduced upward pressure on costs led Chinese companies to raise selling prices at a milder rate. Average prices charged for goods and services showed the smallest rise for a year during the second quarter as a whole, rising only slightly in June, pointing to subdued pricing power amid waning demand.

---

### Bernard Aw

**Economist**

**IHS Markit**

Tel: +65 6922 4226

Email: [bernard.aw@ihsmarkit.com](mailto:bernard.aw@ihsmarkit.com)

[Click here](#) for more PMI and economic commentary.

For further information, please visit [www.ihsmarkit.com](http://www.ihsmarkit.com)