Source: South China Morning Post
Date: 1/11/2017

Factory growth cools as smog curbs take effect

Survey also shows drop in export orders ahead of peak shopping season

Reuters

Growth in the manufacturing sector cooled more than expected in October in the face of a weakening property market and tighter pollution rules that are forcing many steels mills, smelters and factories to curtail production over the winter.

While still easily in expansion territory, the monthly official factory survey also showed unexpected weakness in new export orders, which had been expected to pick up heading into the peak year-end shopping season.

The data gives global investors their first look at business conditions in China at the start of the fourth quarter, with the government's punishing war on smog adding to uncertainty amid early signs of a slowdown in the world's second-largest economy.

The Purchasing Managers' Index released yesterday fell to 51.6, from to 52.4 in September, which was the strongest in over five years. It was the weakest reading in three months, but remained above the 50-point mark that separates growth from contraction.

Analysts had forecast the PMI would fall slightly to 52.0, but still point to growth in the sector for the 15th straight month.

A recovery for manufacturing and industrial firms – boosted by government spending, a resilient property market and unexpected strength in exports – helped the economy post better-than-expected growth of nearly 6.9 per cent in the first nine months.

Profits for industrial powerhouses surged 27.7 per cent in September as environmental inspections and the start of plant closures in smog-blighted northern provinces sparked fears of supply shortages and sent prices of finished goods like steel and copper sharply higher.

Earnings have been boosted by surging factory gate prices, but the latest survey showed input price gains slowed considerably, with the reading at 63.4 compared to 68.4 in September and the weakest since July.

Output price gains also slowed, reflecting concerns that higher commodity prices had not led to higher prices and profits for downstream industries.

Prices of steelmaking materials such as iron ore and coking coal have started to dive on fears of excess supply as winter output curbs kick in, which should start to weigh on mining companies.

51.6

The Purchasing Managers' Index for October, down from 52.4 in September

The latest pollution closures come on top of efforts to trim and upgrade the bloated industrial sector by shutting down outdated capacity.

A sub-reading for output fell to 53.4 in October from 54.7 the previous month, still solid but matching the slowest growth over the last seven months.

At the Communist Party Congress, President Xi Jinping said the country would pursue high-quality rather than high-speed growth while reinforcing a pledge to win the war on pollution.

Growth in the services sector also eased in October but continued to show solid expansion, a sister survey showed. The official non-manufacturing Purchasing Managers' Index fell to 54.3 from 55.4 in September, which was the strongest reading since May 2014.