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ECONOMY

China's factory output contracted again in February. Photo: Reuters

Slump continues in service sector and manufacturing

Latest data shows economy slowing further last month amid trade war and Lunar New Year lull

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China's economy slowed further in February, with manufacturing output contracting for a third straight month while services and construction activity also continued easing in a period cut short by the Lunar New Year holiday.

The composite purchasing managers' index (PMI), published by the National Bureau of Statistics yesterday, fell to 52.4 in February from 53.2 in January.

The latest reading is the lowest since the bureau started publishing the composite index in January 2017.

The decline was led by factory activity, which fell further into negative territory last month as the manufacturing index dropped to 49.2 from 49.5 in January.

The drop was larger than expected, with analysts forecasting an unchanged reading of 49.5, according to a Bloomberg survey.

The reading below 50 means the manufacturing sector contracted in February.

Growth in activity in the non-manufacturing sector, which includes services and construction, also slowed, with the index dropping to 54.3 in February from 54.7.

"Admittedly, we are wary of putting too much weight on the official PMIs given that they have provided false signals in the past. We will have a better idea of how the economy has performed recently when the February reading of the Caixin manufacturing PMI, a better guide to cyclical trends than the official index, is published," said Julian Evans-Pritchard, senior China analyst at Capital Economics.

The non-manufacturing decline was also larger than expected, as analysts had projected a drop to 54.5 according to a Bloomberg survey.

"This suggests that either policy efforts to support infrastructure spending are falling short or that they are being offset by weaker property construction," Evans-Pritchard said.

Last month's PMI readings could have been skewed by the timing of Lunar New Year – which began on February 4 – during which activity in the manufacturing and services sectors is typically cut back or halted altogether.

"To avoid the distortion caused by the Lunar New Year holidays, which occur on different days in either January or February each year, the usual practice is to combine the January and February data. The average PMI for January-February 2019 was 49.25, which is below the 49.4 reading in December and the 50.0 reading in November," said Nomura economist Lu Ting.

The trade war continues to plague factories, with the new export orders index contracting to 45.2 in February, its lowest level in 10 years, from 46.9 in January.