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ECONOMY

RECOVERY SEEN IN SERVICES SECTOR, MANUFACTURING

Purchasing managers indices for both pillars of China's economy increased in March, with the figure for industry moving into growth territory

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The nation's services industry saw faster growth last month while manufacturing activity also recovered, according to figures released yesterday.

The official non-manufacturing purchasing managers' index (PMI), which covers the services and construction sectors, rose 0.5 points from February to 54.8, to remain well above the 50-point mark that separates growth from contraction.

The services sector accounts for more than half of the nation's economy and has helped soften the impact of a manufacturing downturn. Growth slowed late last year, however, amid a cooling property market and faltering consumer demand for everything from cars to mobile phones.

After three months in decline, the official manufacturing PMI picked up in March, rising 1.3 points from February to 50.5. The monthly gain was the greatest since February 2012 and came after Beijing announced it would introduce tax cuts to help struggling manufacturers.

Meanwhile, the composite PMI, which covers both manufacturing and services activity, rose to 54 points last month, from 52.4 a month earlier.

A sub-index for factory output grew at its fastest pace in six months in March, reversing a brief contraction in February. It rose 3.2 points to 52.7, its highest level since September. Another sub-index, for new orders, rose one point month on month in March to 51.6.

After trade negotiators succeeded in delaying the imposition of new US tariffs on Chinese goods, China's new export orders index rose 1.9 points to 47.1 in March from a 10-year low in February, though the figure remained in contraction territory.

Ding Shuang, chief Greater China economist at Standard Chartered Bank, said the latest PMI figures suggested Beijing's stimulus policies were starting to take effect.

54

Last month's figure for composite PMI, which covers both manufacturing and services activity. A number above 50 indicates growth

"In particular, the production PMI has rebounded relatively quickly, showing that the tax reduction policy in support of manufacturing has worked."

Beijing this month announced massive tax cuts to shore up manufacturing and other sectors, as well as increased public spending on housing and infrastructure.

From today, the value-added tax rate for manufacturing firms will fall to 13 per cent from 16 per cent, while the rate for transport and construction firms will drop by a point to 9 per cent.

On the monetary front, the People's Bank of China twice reduced lenders' required reserve ratio in January – by half a percentage point each time – adding 1.5 trillion yuan (HK$1.8 trillion) to the banking system, much of which was intended for private sector firms and small businesses.

Ding said more investment by local authorities had also helped activity in the construction industry, which swung back into high gear in March, rising 2.5 points from February to 61.7.

Both Ding and Shen Jianguang, chief economist at JD Digits, a unit of Chinese e-commerce firm JD.com, said they had expected the first quarter of 2019 to be a difficult period for the economy, but forecast an upturn in the second and third quarters.

If there was such an improvement Beijing would likely reduce its stimulus spending, Shen said.

"I think the central authorities will review infrastructure and housing investment in the second half of the year, as too aggressive a policy could result in inflation and a rebound in property prices," he said.

Ding agreed, saying Beijing would review its spending plans in line with how trade talks went.

"If in June or July, the situation regarding the trade war is looking more positive, adjustments could be made as the biggest economic uncertainty would have been ruled out," he said.

Meanwhile, the employment indices for both the manufacturing and non-manufacturing sectors rose 0.1 points in March, to 47.6 and 48.7 respectively.

To help employment, Beijing said it would reduce the contribution employers had to make to the state pension scheme for workers to 16 per cent from the current 19 or 20 per cent.

Additional reporting by Reuters

A sub-index for factory output grew at its fastest pace in six months, rising 3.2 points to 52.7. Photo: Reuters