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ECONOMY

Mainland factories in surprise August rebound

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China's manufacturing activity surprisingly expanded last month, according to a private survey released yesterday, even as factory output in the region continued to contract amid the escalating trade war with the United States and overall sluggish global demand.

The Caixin/Markit factory purchasing managers' index (PMI) improved to 50.4 from 49.9 in July, beating the expected 49.8 based on a poll compiled by Reuters and rising into expansion for the first time in three months.

A reading above 50 indicates expansion, while below 50 points to contraction.

New orders stayed up in August but inched down from July, suggesting flat demand, said Zhong Zhengsheng, director of macroeconomic analysis at CEBM Group, a unit of Caixin.

"China's manufacturing activity showed a recovery in August, mainly due to improved production activity," Zhong said.

"However, overall demand didn't improve and foreign demand declined notably, leading product inventories to grow. There was no sign of improvement in companies' willingness to replenish inventories of inputs or in their confidence. Industrial prices trended down."

Zhong said the rise in manufacturing activity in August reflected signs of a short-term rebound, but pressure on output in the long term still remained owing to the US-China trade war.

The recovery in the Caixin/Markit figure followed a weakening in the official manufacturing PMI for August, reflecting the wider downward trend in economic growth and trade woes. The official PMI for August, released on Saturday, hit 49.5, marking the fourth consecutive monthly decline.

The Caixin PMI mainly tracks 500 smaller private factories, while the official index focuses on 3,000 larger manufacturers.

"Continued expansion in output drove the lift of the headline PMI figure back to expansion territory, though it is uncertain whether this might be due to front-loading ahead of further tariffs," said Pan Jingyi, a market strategist at IG Asia.

"Therefore, one would have to monitor the September performance to ascertain the trend. It will also be jumping to conclusions to render the better headline number as a reason for relief."

In the region, factory output for manufacturing heavyweights Japan, South Korea and Taiwan continued to plunge owing to weakening demand caused by the trade war.

Japanese manufacturing activity declined for a fourth month in August, according to the final Jibun Bank Japan PMI, which edged down to a seasonally adjusted 49.3 from 49.4 in July.

Korea's factory activity also shrank in August and contracted for a fourth consecutive month, according to the Nikkei/Markit PMI, which hit 49, against 47.3 in July. The export-driven country is also in a trade dispute with Japan, which is further hurting demand for its products.

The IHS Markit PMI for Taiwan fell to 47.9 from 48.1 in July as orders slipped.

Analysts at London-based research firm Capital Economics said poor trade data for Korea, along with weakness of regional manufacturing PMIs in August, suggested gross domestic product growth in the region had "bottomed out", adding yesterday's data underscored how sluggish the economic recovery was likely to be.

"As a major export partner for all of the region's economies, weaker demand from China weighs on the outlook for growth elsewhere," Capital Economics said.

But despite an intensifying trade war with the US and a slowdown in the economy, most analysts believe it is unlikely for China to launch large-scale easing to shore up growth.

In a research note, Goldman Sachs suggested China might allow a slight decline in market rates and a 100-basis-point cut in the reserve requirement ratio to boost liquidity among banks, limiting an unleashing of credit and money into the financial system.

"We do not see signs of a renewed push on fiscal policy as yet, and expect housing regulation to stay relatively tight, if we assume those two components of policy hold steady to year-end," Goldman Sachs said.

"In other words, China's domestic policy stance will remain significantly more cautious than in prior growth slowdowns."

50.4

The August reading of the Caixin/Markit factory PMI, an improvement from July's 49.9 and beating the estimate of 49.8