

## China's Manufacturing PMI Fell In September On Power Crunch

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In September, China's official **Manufacturing PMI** fell into the contractionary territory, declining to 49.6 from 50.1. This is the first below-neutral reading after the plunge during the first wave of COVID-19 outbreaks. **Output** dropped to 49.5 from 50.9, while **New Orders** eased further to 49.3 from 49.6. **Employment** also weakened to 49 from 49.6. Meanwhile, **Business Sentiment** softened to 56.4, the lowest since May 2020.

In contrast, the **non-manufacturing PMI** rebounded sharply to the expansionary territory, rising to 53.2 from 47.5. With the virus well control and restrictions lifted, the Service sector regained vitality. **New Orders** improved to 49 from 42.2, and **New Export Orders** picked up to 46.4 from 43.9. **Employment** edged up to 47.8 from 47 and **Business Sentiment** rose to 59.1 from 57.4.

The **Composite PMI** climbed back to expansion, tallying 51.7 after August's 48.9, suggesting that business activities accelerated.

### Details – Demand Improved, While Reduced Orders and High Costs Dampened Factory Output

- **Manufacturing: New Export Orders** slowed to 46.2 from 46.7. Purchases Quantity eased further to 49.7 from 50.3. **Input** and **Output Prices** both rose, reading 63.5 from 61.3 and 56.4 from 53.4, respectively. Suppliers' delivery edged up to 48.1.
- Large enterprises inched up to 50.4 from 50.3. However, medium and small enterprises both weakened, falling to 49.7 and 47.5 from 51.2 and 48.2, respectively.
- **Non-manufacturing:** Input Prices moved up to 53.5 from 51.3, and Selling Prices rose to 50.5 from 49.3, reflecting a pickup in demand. Suppliers' delivery time rose to 50.4 from 49.2.

### Energy Crunch Threatens The Slowing Growth

China's latest widespread electricity crunch is hitting the already slowing economic growth. While high input costs continue to squeeze industrial profits and chip shortages continue to dent production, the nationwide power disruption brings further headwinds to Manufacturing.

More than 20 provinces restricted electricity supply in September to meet the Government's call to "control energy use and carbon emissions". **The power crunch could be prolonged** to reach China's ultimate goal of reaching carbon neutrality by 2060. It could create knock-on effects throughout the global supply chain, threatening new orders and hampering economic growth.

On the front of Services, consumer demand picked up thanks to the three-day national holidays during the Mid-Autumn Festival. However, consumer spending on travel and tourism remained weak and lower than the pre-Pandemic level. The upcoming seven-day holidays for the National Day in October should boost consumption further, though the resurgent outbreaks in South and Northeast China make the optimism only cautious.

Looking ahead, China's economic growth is expected to slow down notably in the fourth quarter with more headwinds ahead.