

# But for the China stumble

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Economics

## What the latest manufacturing PMIs mean for Asia

Asia

- ◆ Decent bounce in regional manufacturing last month – if it wasn't for the growth stumble in mainland China, that is. Given the tailwind from local 'reopening' and still full order books, most economies saw a strong start to the second quarter. But challenges in China are likely to ripple through the region in the next few months: not only because they knock out demand in the most important export market, but because manufacturers across Asia are highly reliant on Chinese components. A swift rebound in China, of course, could brighten the picture. Still, there are also tentative signs of things starting to wobble elsewhere. The risks to growth are building all around.

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Not a bad start to the second quarter, all considered. Turn to our first heatmap. With the exception of mainland China, all manufacturing PMIs are in expansion territory, with quite a few picking up steam last month. In most economies, local 'reopening' after the earlier Omicron wave is providing tailwinds, while exports have remained resilient so far, too.

Chart 1: Headline manufacturing PMIs (index)

	PMI				New orders			
	Apr 22	Mar 22	Feb 22	12m avg.	Apr 22	Mar 22	Feb 22	12m avg.
Australia	58.5	55.7	53.2	55.4				60.5
New Zealand		53.8	53.6	55.0				58.5
China Caixin	46.0	48.1	50.4	49.8				49.4
China NBS	47.4	49.5	50.2	49.9				49.3
India	54.7	54.0	54.9	53.9				55.8
Indonesia	51.9	51.3	51.2	51.7				52.5
Japan	53.5	54.1	52.7	53.4				51.9
Korea	52.1	51.2	53.8	52.1				52.4
Malaysia	51.6	49.6	50.9	48.6				46.8
Philippines	54.3	53.2	52.8	51.1				50.3
Singapore	50.3	50.1	50.2	50.6				51.1
Taiwan	51.7	54.1	54.3	56.1				55.3
Thailand	51.9	51.8	52.5	50.2				48.6
Vietnam	51.7	51.7	54.3	49.7				48.7
ASEAN	52.8	51.7	52.5	50.8				50.5
Global	52.2	52.9	53.7	54.2				53.6
US (ISM)	55.4	57.1	58.6	60.3				63.7
US (Markit)	59.2	58.8	57.3	59.6				59.8
UK	55.8	55.2	58.0	59.0				56.3
Germany	54.6	56.9	58.4	59.9				58.3
France	55.7	54.7	57.2	56.4				53.3
Eurozone	55.5	56.5	58.2	59.4				57.7
<div>expanding + stronger</div> <div>expanding but weaker</div> <div>contracting + weaker</div> <div>contracting but improving</div>								

Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

It's a different story, though, in mainland China. For the second month in a row, the manufacturing sector has been contracting, pummelled by various lockdowns and logistics bottlenecks. New orders in China are also under water, suggesting weakness may persist.

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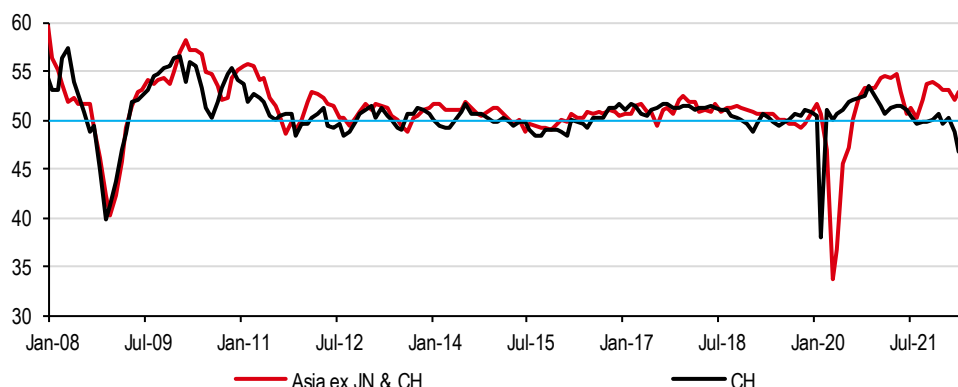
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Ongoing production and logistics challenges in mainland China will eventually ripple through the region, putting a damper on growth elsewhere. The pullback in Taiwan's manufacturing PMI may already signal spill-over of disruptions (note that new orders in Taiwan contracted), as does the weaker reading for Japan.

Our first Chart highlights the divergence in manufacturing PMIs between mainland China and the rest of emerging Asia. The latter ticked up on average (if slightly) last month, holding well above its pre-pandemic average. By contrast, the former, the average of China's two headline measures, slid to its lowest since February 2020.

**Chart 1: Headline manufacturing PMIs (index)**

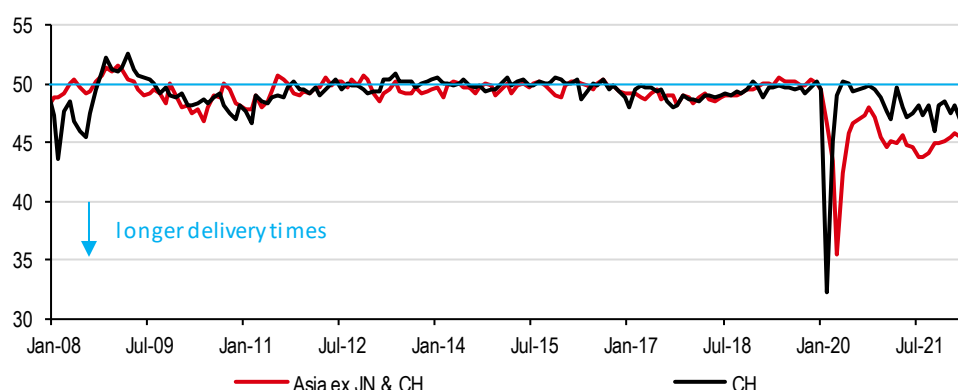


Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

If challenges in China persist, there are growing risks of spill-overs to the rest of the region. For one, China is now, by quite a margin, the biggest export market on average for other Asian economies. In addition, China is, again by quite a margin, the largest provider of manufacturing components to other economies.

Regarding the latter, Chart 2 shows the potential for disruptions. Delivery times by Chinese manufacturers have lengthened sharply over the past month as they struggle with output and logistics disruptions. As the delivery of key components is delayed, this is bound to affect producers over time along regional supply chains.

**Chart 2: Manufacturing PMIs delivery times (index)**

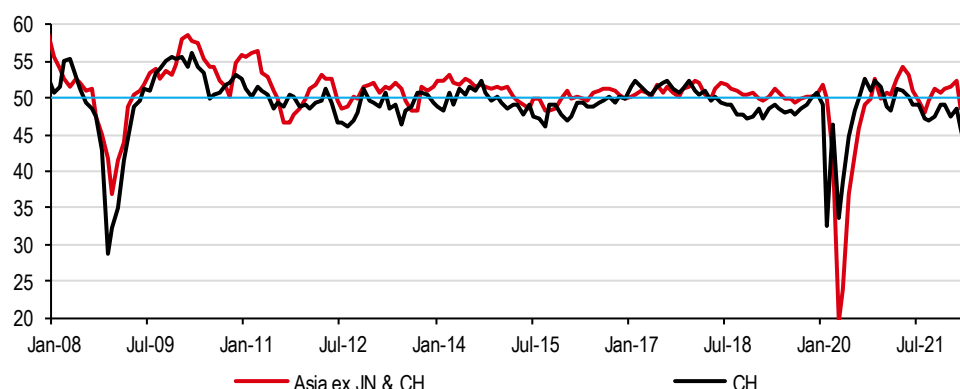


Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

So far, challenges in China don't seem to have disrupted exports from other parts of the region. Some economies, like Malaysia, may even have seen shipments pick up as overseas buyers look for alternative suppliers. In fact, Chart 3 shows the divergence between new export orders between China and the rest of the region.

However, over time, the disruption of component supplies from mainland China, as well as weaker Chinese demand, is bound to weigh heavily on exports from other economies. Note that for emerging Asia excluding mainland China new export orders, while ticking up, are barely above the waterline. Taiwan's new export orders, a key bellwether, contracted for a second month in April.

**Chart 3: Manufacturing PMIs new export orders (index)**



Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

Our second heatmap shows the breakdown of new export orders and the employment component of manufacturing PMIs. With the exceptions of mainland China and Taiwan, the readings in Asia improved last month compared to March. But outside of India, the improvement has been marginal (in fact, emerging Asia excluding China and India, saw its new export orders contract again on average in April).

**Heatmap 2: Manufacturing PMIs new export orders and employment (index)**

	New Export Orders				Employment			
	Apr 22	Mar 22	Feb 22	12m avg.	Apr 22	Mar 22	Feb 22	12m avg.
Australia	47.7	58.3	42.6	50.4				51.7
New Zealand								52.9
China Caixin	43.1	44.5	48.3	48.2				49.4
China NBS	41.6	47.2	49.0	47.2				48.9
India	54.2	48.4	51.6	51.7				49.7
Indonesia	52.9	52.2	52.9	48.1				49.1
Japan	47.1	46.5	50.6	50.8				52.1
Korea	46.2	45.8	53.2	50.2				50.9
Malaysia	50.3	48.8	50.6	48.5				49.3
Philippines	48.0	47.2	50.8	49.1				48.5
Singapore	50.9	50.7	50.6	51.1				50.6
Taiwan	48.7	49.0	55.1	55.6				52.4
Thailand	50.0	48.1	48.2	49.7				48.7
Vietnam	52.3	53.0	55.7	49.0				47.1
ASEAN	50.0	49.3	51.6	48.4				48.7
Global	48.2	48.1	51.0	51.1				51.8
US (ISM)	52.7	53.2	57.1	55.0				52.8
US (Markit)	56.4	54.9	53.4	53.6				53.1
UK	47.7	49.4	49.1	51.4				57.0
Germany	47.1	49.1	56.4	56.6				57.2
France	46.5	45.8	52.4	51.9				53.0
Eurozone	49.0	49.7	55.0	55.9				56.3
expanding + stronger		expanding but weaker		contracting + weaker		contracting but improving		

Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

Encouragingly, employment appears to be holding up in much of the region, although challenges remain in mainland China, Malaysia, and the Philippines.

Decent enough picture, then, for much of Asia...but beware the ripples that are bound to wash through the region in the wake of China's growth stumble.

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