Chinese economy

# China's economy suffers blow as factory activity slows

Manufacturing PMI falls for fifth month as Beijing prepares to unveil growth target at annual parliament session

Weakness in China's manufacturing activity has added to pressure on policymakers to boost stimulus © CFOTO/Sipa USA via Reuters

**Joe Leahy** in Beijing and **Thomas Hale** in Shanghai FEBRUARY 29 2024

Keep up with the latest news on Asia's biggest economy.

**Explore the China Focus hub**

China's economy showed further signs of sluggish momentum as factory activity slowed, increasing pressure on President Xi Jinping take stronger action to boost growth days before Beijing opens its annual flagship political event.

The country's official manufacturing purchasing managers' index stood at 49.1 for February, according to figures released on Friday, slipping from a reading of 49.2 in January and in line with a Reuters analyst forecast. A reading below 50 marks a contraction from the previous month.

The consistent weakness in China's manufacturing PMI — which has been in contraction territory for five consecutive months, and every month since March bar September — comes as Beijing is due to open the annual session on Tuesday of the National People's Congress, its rubber-stamp parliament.

Thousands of delegates from across the country will descend on Beijing for the meeting, where the ruling Chinese Communist party will announce its targets for economic growth, fiscal stimulus and military spending for the year, as well as possible senior personnel changes and policy priorities.

The meeting comes as policymakers are grappling with a multiyear slowdown in the property sector, entrenched deflation and poor investor sentiment, with foreign direct investment hitting a record low, which they are trying to offset by focusing on high-end manufacturing and infrastructure investment.

"The combination of weakening growth, slumping confidence, entrenched deflation, a real estate meltdown and swooning financial markets ought to be a clarion call for policymakers to act decisively and soon," said Eswar Prasad, professor of economics at Cornell University.

"At the NPC meeting, the government will need to come up with something more compelling than an optimistic growth target that by itself will probably do little to revive household and business confidence," he added.

Analysts expect Beijing to announce a growth target for 2024 of about 5 per cent. This would be the same as last year's figure, which was the lowest in decades. But it would be harder to achieve this year because of the absence of a low base effect from the coronavirus pandemic that flattered growth in 2023.

The CCP leadership body, the politburo, this week indicated this week that it was open to more stimulus measures, though few expect Beijing to announce a "bazooka" package as in the past.

"Proactive fiscal policy must be appropriately intensified," the politburo said on Thursday, according to the Xinhua state news agency. "We must vigorously promote the construction of a modern industrial system and accelerate the development of new productive forces."

The non-manufacturing index, which covers services and construction, painted a stronger picture for consumption. The gauge rose to 51.4 in February from 50.7 the month before, according to the National Bureau of Statistics.

The NBS said that while activity in the construction industry softened slightly and real estate activity fell, other areas such as catering, transport and entertainment were in a “boom” range of above 55, as millions travelled during the lunar new year holiday.

But analysts cautioned that consumer and investor confidence remained relatively low.

“Overall, both production and consumption data from February suggest that both corporates and consumers stay cautious,” said Larry Hu, chief China economist at Macquarie Group. He noted that the month contained fewer working days than usual due to the lunar new year, making it a less reliable indicator of economic health.

Prior to the data release, Nomura chief China economist Ting Lu said economic indicators in January and February taken together should show a fuller picture.

“Major growth indicators are likely to show a broad-based slowdown in their year-on-year growth rates in January-February from December last year, as the base effect due to the exit wave of Covid in late 2022 subsided,” he said.