

Industrial Outlook Improves in China

Export growth prospects are beginning to brighten for supplier economies like Germany.

China Cheer Despite the trade war, Chinese industrial growth prospects have begun to improve. This is a key development for the nascent upturn in our forward-looking indicators of global industrial growth to gain traction.

Notably, the smoothed growth rate of ECRI's Chinese Leading Industrial Production Index (CNLIPI) rose in September to a ten-month high (Chart 1, upper panel). This suggests improved prospects for Chinese industrial production growth and serves to clarify the mixed messages from Chinese Purchasing Managers Index (PMI) data.

In fact, driven in part by strength in new orders (but not new export business) the Caixin China General Manufacturing PMI, a private survey of mostly smaller and medium-sized firms, rose for the third successive month to a 19-month high. It therefore stayed above the 50 mark separating expansion from contraction for the second straight month (lower panel, navy line).

But the China Federation of Logistics and Purchasing (CFLP) PMI, an "official" survey of a large proportion of big businesses, including state-owned enterprises, edged up only slightly. Indeed, it has stayed below 50 – in contraction territory – since last December, aside from a two-month springtime pop (teal line). It has accordingly cast doubt on any upcoming revival in Chinese industrial growth.

A global industrial growth upturn may permit a shorter-term detour on the journey to Japanization. But

with longer-term trend growth approaching zero, recessions become more likely during cyclical slowdowns, making policymakers quicker to embrace desperate policy measures.

Chart 1: Chinese Leading Industrial Production Index Growth (%) and Chinese PMIs

