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ECONOMY

China SMEs show modest manufacturing gains

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China's small and medium-sized companies have "yet to display a strong trend of rebound" despite showing a slight improvement in business sentiment in March, according to an independent survey, following an equally modest recovery in manufacturing activities last month.

The CKGSB Business Conditions Index – a measurement of private sector sentiment for sales, revenue, the financing environment and inventory – rose from 51.6 in February to 52.1 last month, according to data published by the Cheung Kong Graduate School of Business.

Like the purchasing managers' index (PMI), the monthly gauge – which surveys small and medium-sized firms – the 50-point mark separates growth from contraction.

"The index is currently still at watershed levels at the reading of 50, it has yet to display a strong trend of rebound," said the school, which has been publishing the data since September 2011 from a monthly survey of alumni.

Respondents to the survey are mostly executives of successful small and medium-sized (SMEs) enterprises, who are asked to rate aspects of their business that they expect to increase and improve, remain unchanged, or decrease over the next six months compared to the same period a year earlier.

"Our sample size came from SMEs that are doing comparatively well. Therefore, the actual business environment for enterprises in China would be worse than what our index reflects," the school said.

Observers have been assessing whether recent economic indicators, which appeared to beat market expectations, would be short lived as China's economic recovery from last year has been difficult and continued to be dragged down by a property sector slump.

The modest growth shown through the business conditions index echoed China's official manufacturing PMI data for last month, which showed a rebound to 50.8 from 49.1 in February.

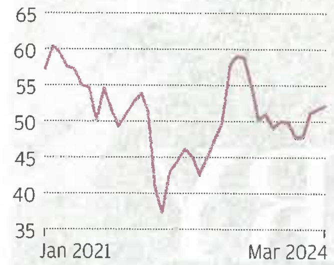
The official reading ended five consecutive months of contraction, and was the highest since March last year.

The data came as other economic indicators also displayed modest upticks for the first two months of the year – including industrial output, retail sales and fixed-asset investment.

In the business conditions index, two of the four surveyed areas – sales and revenue – improved last month, while sub-indexes for financing and inventory weakened.

The financing environment, in particular, dropped from 45.6 in February to 45.1 in March.

CKGSB Business Conditions Index



Note: Data not provided for December 2021 and November and December 2022

Source: Cheung Kong Graduate School of Business (CKGSB) SCMP

Financing is the only subindex that reflects current business conditions, while the other three point to outlook, according to the school.

The indicator for inventory rose from 49.1 to 50, suggesting an expectation for a reduced stockpile.

Surveyed businesses also expected costs to rise, which the school said "does not necessarily reflect a worsening operating environment", as it could indicate increased investment budgeted from optimism amid a recovering economy.

Meanwhile, respondents expected drops in investment and job openings, with the school saying the two indicators are strongly interrelated, and "worth paying attention to".

The school said the survey also showed while there were improvements in "mid-price range products", it continued to trend on a low trajectory, reflecting "enormous pressure" on China's prices.

China has been seen as facing growing risks for a deflation with weak consumer demand, an accusation that Beijing reject.

It has set a gross domestic product growth target at "around 5 per cent" for this year, while also aiming for consumer prices to grow by 3 per cent following 0.2 per cent growth last year.