China factory activity stalls in May as demand weakens

REUTERS, *Beijing*

China's factory activity stalled in May as new export orders contracted and input costs kept rising, an official survey showed on Sunday, adding to concerns the world's second-largest economy is losing momentum despite pockets of strength in services and high-tech manufacturing.

The official manufacturing purchasing managers' index (PMI) dropped to 50 from 50.3 in April, matching the forecast in a Reuters poll of economists and straddling the 50-mark separating growth from contraction, according to a survey by the National Bureau of Statistics (NBS).

It was the lowest reading in three months and followed data earlier in May showing China's growth momentum cooled in April despite a rebound in exports.

Supply improved while demand weakened, as the sub-indexes for production and new orders came in at 51.2 and 49.9 in the manufacturing PMI survey.

New export orders fell more sharply, dropping to 48.6 from 50.3 in April, heaping pressure on policymakers to reduce the economy's reliance on overseas demand and strengthen domestic consumption.

"The slowdown in foreign demand was particularly prominent ... mainly due to a marked contraction in the exports from the consumer goods manufacturing sector," said Wen Tao, an analyst at the China Logistics Information Center.

Weakness in the property market, employment and consumer spending continues to dampen growth, leaving China reliant on global demand to absorb goods produced by its manufacturing sector.

PHOTO: REUTERS

People work on a production line, manufacturing tank containers at a factory in Nantong, Jiangsu province.

China's government has vowed to address the supply-demand mismatch and has set a less ambitious GDP growth target for 2026, allowing more room for reforms.

COST PRESSURES LINGER

External pressures have added to the strain on manufacturers. The US-Israeli war with Iran, which started in late February and led to the effective closure of the strategic Strait of Hormuz, has sent energy prices surging, threatening to squeeze manufacturers' profits as costs soar.

The gauge for raw material prices in the manufacturing PMI survey came in at 60.5, down from 63.7 in April but still well above the 50-point mark, suggesting input costs continued to rise, albeit at a slower pace.

"The purchase price index remained in expansionary territory, showing that raw material prices continued to rise, which also kept prices at the product end increasing," Wen said.

For Chinese manufacturers, external factors have had an uneven impact. The petrochemical sector and other upstream industries have borne the brunt of imported producer price inflation, but stockpiling by buyers concerned about further cost hikes as well as global demand for semiconductors and other AI-related goods have bolstered advanced manufacturing.

High-tech and equipment manufacturing outperformed the overall sector in May, logging PMI readings of 52.9 and 52.1, NBS data showed. Activity in high-energy-consuming industries, meanwhile, contracted.

A summit between Chinese and US leaders in Beijing in mid-May did not result in an extension of the trade truce the two governments reached late last year, although the two sides agreed to explore areas for tariff cuts on goods worth some $30 billion from each.

The non-manufacturing PMI, which includes services and construction, rose to 50.1 from 49.4 in April, NBS data showed, helped by a surge in travel spending during the five-day May Day holiday at the start of the month.

India's forex reserves fall to one-year low

REUTERS, *Mumbai*

India's foreign exchange reserves fell to a more than one-year low of $681.4 billion in the week ended May 22, from $688.89 billion a week earlier, the Reserve Bank of India (RBI) data showed on Friday.

The $7.5 billion decline was largely due to a $4.5 billion fall in the value of the central bank's gold holdings, week-on-week.

The value of the RBI's foreign currency assets also shrunk by nearly $3 billion to $543 billion.

Changes in foreign currency assets, expressed in dollar terms, include the effect of appreciation or depreciation of other currencies in the reserves.

The RBI has been selling dollars to defend the beleaguered rupee, which has declined 4 percent since the US-Iran war began, as surging energy prices sparked capital outflows and clouded India's macroeconomic outlook.

In the week to which the data pertains, the rupee slid to a record low of 96.96 per dollar before being shored up by firm RBI intervention over multiple trading sessions, including likely on Friday.

It ended the session at 95 per dollar, up 0.7 percent week-on-week. Foreign exchange reserves include India's Reserve Tranche position in the International Monetary Fund.

Why rawhide prices fall

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In his view, the core problem is cash.

He said businesses do not have sufficient working capital to buy at the government fixed rates during the peak collection period.

Mohammed Abu Eusuf, professor of development studies at Dhaka University, said Bangladesh's leather sector is trapped in a cycle of low prices, weak demand and missed export potential.

He said the country stays in the loop because the compliance and governance problems have not been addressed.

Government price-setting has not been effectively enforced, he said, leaving seasonal traders to absorb losses. Unless the sector generates stronger demand and meets international environmental standards, conditions are unlikely to change.

He noted that tanneries with LWG certification are picking up solid export orders. However, much of the industry is excluded from such opportunities because the Savar Tannery Estate remains non-compliant, leaving most leather produced there tied to lower-priced markets, including China.

Md Mizanur Rahman, professor and director of the Institute of Leather Engineering and Technology at Dhaka University, traced the pressure on rawhide prices back to 2012, when international buyers began enforcing stricter environmental and compliance requirements.

Before that, Bangladeshi tanneries exported wet blue leather with fewer restrictions. As buyers in Europe and North America tightened standards, access to those markets increasingly depended on certification and environmental performance.

Rahman said the government moved tanneries from Hazaribagh to Savar to address environmental concerns, but the CETP has not delivered the level of compliance required by global buyers. As a result, many tanneries have shifted towards lower-priced markets, limiting what they can pay for rawhides.

The main driver of falling rawhide prices is weak tannery demand, not a cartel, Rahman said. "If there were strong demand, prices would naturally rise."

Md Abdur Rahim Khan, additional secretary and head of the Export Wing at the Ministry of Commerce, said price issues in the rawhide market are mainly linked to quality, handling and coordination across the supply chain rather than administrative factors.

He said that during Eid-ul-Azha, large-scale slaughtering by unskilled butchers often leads to torn or damaged hides, reducing their value even when salt is applied.

He added that salt-treated hides generally receive government-fixed prices, but unsalted or poorly handled hides do not fetch expected rates.

Commerce Minister Khandakar Abdul Muktadir said the decline in rawhide prices in recent years is mainly due to structural problems within the industry.

He said the relocation of tanneries from Hazaribagh was the right decision, but the process was poorly managed, leaving many tanneries unable to restart operations properly.

He pointed out that the CETP at Savar, designed for a capacity of 25,000 cubic metres, is currently operating at only 14,000 to 17,000 cubic metres, around 60 percent of capacity.

According to the commerce minister, this shortfall, combined with limited processing and compliance infrastructure, has weakened overall efficiency in the sector.

Muktadir said compliance has become essential for accessing better international prices, measured through the LWG certification.

"Without this certification, factories are considered non-compliant and are excluded from reputable international buyers, including those purchasing finished leather goods and crust leather."

He added that compared with the Hazaribagh period, there are now fewer processors and manufacturers. As a result, the sector cannot absorb the large volume of hides generated during Eid-ul-Azha, creating a supply and demand imbalance and pushing prices down.

He explained that while CETP capacity constraints prevent immediate full-scale processing, there is no major issue if leather is processed gradually over six to eight months.

The minister said an Italian company is studying the CETP to identify technical solutions for its underperformance. A report is expected in June or early July, after which corrective steps will be taken to restore full 25,000 cubic metre capacity.

Besides, individual effluent treatment plants will become mandatory for large tanneries, with government support through technical assistance and loans, said Muktadir.

Leather sector loses billions

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enormous strain on processing capacity and making efficient handling critical to securing better prices.

The DU professor said the lack of internationally compliant environmental infrastructure at the Savar Tannery Industrial Estate has further limited the sector's ability to move up the value chain.

Md Tipu Sultan, chairman of the Bangladesh Finished Leather, Leather Goods and Footwear Exporters Association (BFLLFEA), said the country's leather sector continues to receive lower prices in international markets mainly because many factories have yet to meet globally recognised compliance standards.

"If we can move quickly on these issues, it will make a significant difference," he said.

The compliance gap is the central obstacle for the sector's growth, he noted, stating that only a handful of factories currently hold the internationally recognised certifications required by buyers in the United States and European markets.

"One or two compliant factories are not enough. If at least 50 out of around 150 factories can achieve those standards, more compliance-focused buyers will source products from Bangladesh," Sultan said.

"If we can move quickly on these issues, it will make a significant difference," he added.

If progress continues, he said, many of the recurring problems facing the leather sector could be resolved before the next Eid-ul-Azha season.

At the factory level, the frustration runs deeper. Md Salauddin Ahmed, managing director of New Kajol Tannery Ltd and treasurer of the BFLLFEA, traces the industry's current predicament to the forced relocation of tanneries from Hazaribagh to Savar – a move the government promised would come with full infrastructure support.

"The government shifted us to Savar with the promise of providing all necessary facilities. But many factories moved before essential infrastructure was ready," he said.

Even years after the relocation, several tanneries still face shortages of gas and other utilities, while the central effluent treatment plant (CETP) has yet to operate at the expected standard, he added.

These shortcomings have prevented the sector from obtaining internationally recognised certifications, including approval from the Leather Working Group (LWG), a key requirement for supplying many global brands.

"As a result, major European buyers are not coming to Bangladesh. We are largely dependent on Chinese buyers, who currently dictate prices," Ahmed said.

That dependence shows in the margins. Processed leather is selling at $0.50–0.55 per square foot, barely enough to cover costs. With most chemicals imported and the dollar strengthening, even cheap raw hides offer little relief.

"We import most of our chemicals, and costs have risen sharply due to the stronger dollar. Even when we purchase raw hides at relatively low prices, we struggle to make a profit," he said.

According to Ahmed, the lack of buyer diversification has weakened the industry's bargaining power and contributed to the decline in hide prices.

"If we can ensure proper environmental compliance and secure LWG certification, European and other international buyers will return. Then we can sell leather at much better prices and pay higher prices for raw hides as well," he said.

Govt plans refund system

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However, he said the effectiveness of the system will depend on how well existing rules on minimum tax and refunds are aligned.

Barua said the proposed timeline for individual taxpayers is encouraging, but warned that the three-year waiting period for corporate refunds could create liquidity pressures for businesses. "The three-year wait for corporate refunds is too long. It effectively locks up working capital that businesses need for daily operations and growth," he said.

He also stressed the need for full digitisation of the refund process.

"For the reform to work in practice, the NBR must fully digitise the refund process. A strong digital system would reduce paperwork, cut delays, and minimise harassment. Ultimately, the success of this initiative will depend not only on the law, but also on how efficiently refunds are processed in practice," Barua added.

However, former NBR member Apurba Kanti Das sees a challenge. "The proposal is a positive step, but the real challenge will be implementation," he said.

He added that although Bangladesh already has legal provisions for tax refunds, taxpayers rarely receive them in practice due to lengthy verification processes and administrative complexities.

When asked about the three-year refund period, a senior NBR official said immediate refunds could discourage taxpayers from adjusting their credits against future liabilities.

"That is why the NBR is proposing this structure," the official added.

Rising exports lower US goods trade deficit

REUTERS, *Washington*

The US trade deficit in goods contracted more than expected in April as a surge in exports blunted rising imports, but economists cautioned the trend was unlikely to be sustainable, with businesses ramping up investment in artificial intelligence.

The advance report from the Commerce Department on Friday suggested the three-month US-backed war with Iran, which has disrupted shipping in the Strait of Hormuz, had yet to have a significant impact on the nation's trade flows. The artificial intelligence spending boom is largely dependent on imports, including computer chips.

"Seemingly relentless AI investment and growth outside the tech sector should propel imports," said Oren Klachkin, financial market economist at Nationwide. "Export growth is likely to be relatively more subdued as the Iran stalemate weighs on overseas demand, though solid energy shipments will provide some offset."

The goods trade gap narrowed 3.4 percent, or $2.9 billion, to $82.4 billion last month, the Commerce Department's Census Bureau said. Economists polled by Reuters had forecast the goods trade deficit would be $86.5 billion.

Goods exports increased 4.0 percent to $219.7 billion. There was a 7.5 percent jump in exports of capital goods. Consumer goods exports shot up 7.8 percent, while exports of industrial supplies, which include petroleum, increased 2.1 percent.

"The oil export windfall must have been offset by higher prices for other critical materials imported from Persian Gulf nations, such as fertiliser and aluminum," said Carl Weinberg, chief economist at High Frequency Economics. "So as expected, the net outcome was a bit less than the energy price spike suggests."