

Economic Analysis

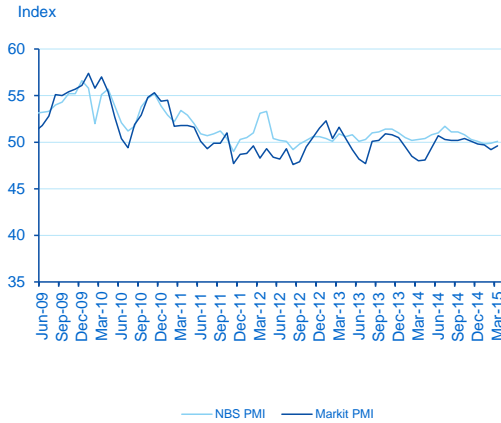
China's March PMIs show positive signs of recovery

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China's official PMI for March 2015, released by NBS today, came in at 50.1, higher than both the market consensus 49.7 and the previous month's reading 49.9. March results hint that China's economy has started to move out of the previous contractionary territory to an expansionary trend. In the meantime, the HSBC China Manufacturing PMI, the final version of which was also released today, came out at 49.6, up from 49.2 last month (consensus: 49.3). Although this is an improvement from last month, it is still below the watershed level of 50.0 (Figure 1). Overall, it can be said that manufacturing activities have shown positive signs in March, as manufacturing enterprises resume their operations following from Chinese New Year as well as the National People's Congress (NPC). In particular, the NPC has helped to improve market expectations as authorities beef up their efforts to promote monetary easing and stimulate the economy, as shown by the PBoC's recent two interest rate cuts and one RRR cut. We believe that more supportive monetary easing will be implemented in 2015 and maintain our forecasting of 2015 GDP growth at 7.0% and Q1 2015 growth at 7.0%.

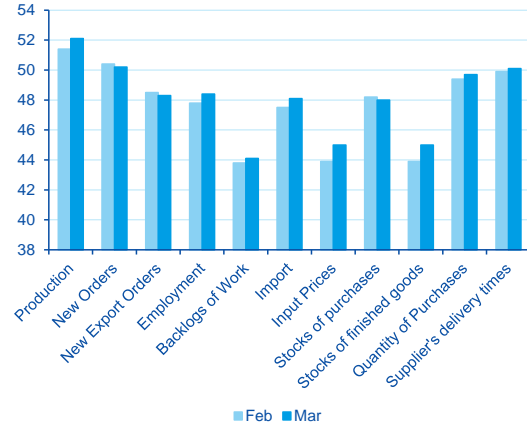
- **Broad-based increases in NBS PMI features in all categories:** The index for New Orders came in at 50.2, above the 50.0 watershed line, indicating expansion in manufacturing demand. In the meantime, the Production Index increased to 52.1 from the last month's reading of 51.7, while the Employment Index increased by 0.6 ppt to 48.4, indicating improving manufacturing labour market conditions. This trend can be traced back to migrant worker's reincorporation into manufacturing activities after returning home for Chinese New Year. In addition, increasing Raw Material Input Price (March: 45.0 vs. February: 43.9) and exceptionally higher Expectation of Production and Business Activities (March: 61.3 vs. February: 54.0) point towards significantly improving economic demand (Figure 2). In sum, the economic stimulation policies announced in National People's Congress and restarting of manufacturing operations have effectively improved the market expectations in March.
- **On the policy front, we expect the authorities to adopt more monetary easing measures in 2015:** Recent sluggish economic activity has prompted the PBoC to cut interest rates twice (November and March) and cut RRR in February, to prevent a sharp drop in growth. Looking ahead, we anticipate more easing measures in 2015. These include at least one additional interest rate cut of 25 bps to be enacted in the first half of the year as well as another RRR cut of 50-100 bps between now and the end of 2015. The PBoC might also resort to unconventional monetary policy tools to inject liquidity into the banking system, including selective RRR cuts, direct refinancing to banks, reverse repo, short or medium term lending facilities and other innovative measures.

Figure 1
Both NBS PMI and HSBC Final PMI surprise the market to the upside



Source: CEIC and BBVA Research

Figure 2
The increasing of NBS PMI outturns are broad-based



Source: NBS and BBVA Research

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