

# China Flash

## Manufacturing PMIs indicate moderate but still weakening growth momentum

The official NBS PMI for March inched up to 50.3 (BBVA: 50.4; consensus: 50.1) from 50.2 in February, indicating that the economy is still in the +50 expansion territory (Chart 1). The increase was modest but broad-based: readings for both new orders and production increased from February; meanwhile, new export orders rose above the 50 expansion threshold, to 50.1, from last month's 48.2, reflecting an improvement in external demand. However, the private HSBC (Markit) PMI, also released today, fell to 48.0 (Flash estimate: 48.1), the lowest since last August, from 48.5 in February, underscoring difficulties for smaller firms. Taken together, manufacturing activities still maintain a weakening trend in March despite some improvement in external demands. Pending March's monthly activity indicators (inflation, trade, industrial production, retail sales, and investment), we expect GDP growth in Q1 to slow down to about 7.4% from 7.7% in Q4 2013. In the meantime, the authorities have already fine-tuned their policy stance toward growth-supportive while more easing measures are in the pipeline.

- **The improvement in the NBS PMI was mild except for the much better data for export orders.** In March, the production sub-index increased to 52.7 from 52.6 in February, and new orders edged up to 50.6 from 50.3 (Chart 2). Raw material inventories rose to 47.8 from 47.4, while employment improved to 48.3 from 48.0 in March. Encouragingly for external demand prospects, new export orders jumped to 50.1, above the expansion threshold, from 48.2 in the previous month. It might suggest improving external demand after export growth declined -18.1% y/y in February.
- **The authorities have fine-tuned policies although they are unlikely to change their priorities on pushing for structural reforms and curbing financial risks.** Premier Li Keqiang On March 26 has signaled that the government will introduce growth supportive measures to underpin the economy (see our [China Flash](#)), including pushing ahead key reforms to boost potential growth, accelerating public infrastructure investment and social housing construction, and facilitating funding to support SMEs. We expect to see more initiatives in this respect in the coming months. Meanwhile, the monetary conditions have also become more accommodative, with lower interbank rates and weaker CNY.
- **On balance, we expect GDP growth to be sustained above 7.0% in 2014**, which is also the government's bottom line for growth although the official target continues to be 7.5%.

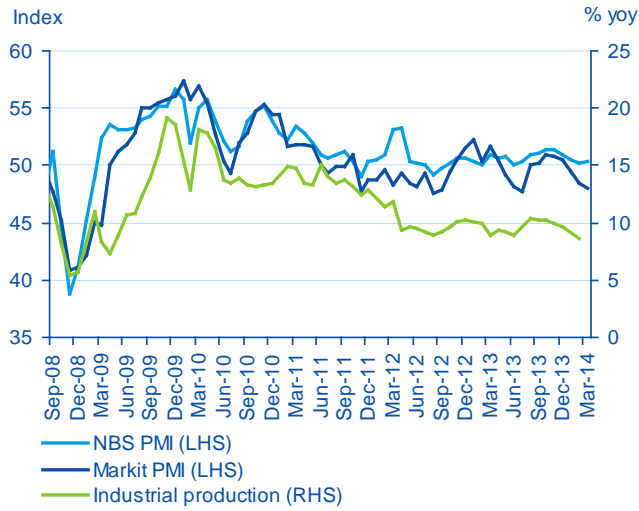
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Chart 1

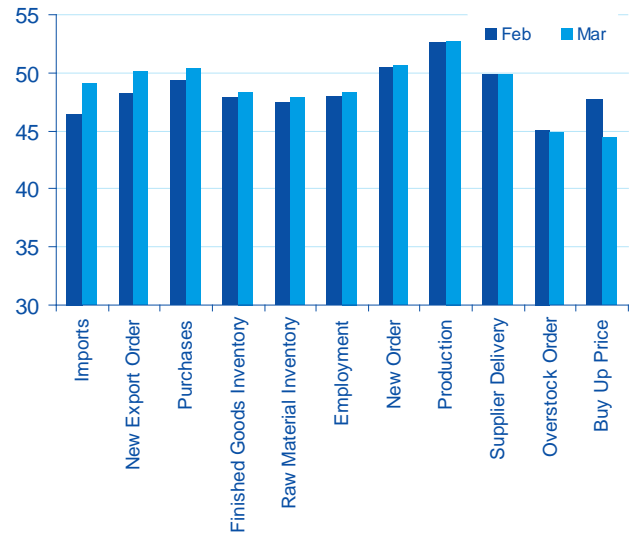
**Official PMI inched up slightly in March**



Source: CEIC and BBVA Research

Chart 2

**...among sub-components new export order is a highlight**



Source: CEIC and BBVA Research



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