China Flash

February PMI outturn signals sustained growth

The official Purchasing Managers Index (PMI) for February increased to 51.0% from 50.5% in January (Chart 1), broadly in line with expectations (BBVA: 51.1%; Consensus: 50.9%). The upturn was expected given the typical pattern of a pickup in the month following the Chinese New Year. That said, the outturn is encouraging as it provides further evidence that the economy is averting a hard landing, and shows a reversal in recent weakness in export demand (Charts 2 and 3), although that may be partly seasonal. We expect sequential growth momentum to bottom out in Q1, leading to full-year growth of 8.3% in 2012 (see China Outlook for details). Our projections are based on continued policy support, including further cuts in the required reserve ratio of 100-150 through mid-year (following the cumulative 100 bps cuts since December). We will watch the forthcoming National People's Congress (NPC) due to begin on March 5 for further elaboration on supportive budget policies.

- **February PMI remained above the 50-level expansion/contraction threshold for a third consecutive month.** The private-sector (Markit) PMI, also released today, showed a similar trend in that in picked up for the month to 49.6%, from 48.8% in January, albeit still within the contraction zone (as noted on previous occasions, the Markit index is based on a sample of smaller, and more export-oriented sample of companies).
- **The pickup in the official PMI outturn was broad-based by component, including new export orders.** While the production subcomponent (with a weight of 25%) increased only slightly, to 53.8% from 53.6% in January, the overall new order subcomponent (with a weight of 30%) rose more significantly to 51.0% from 50.4% the previous month, and new export orders rebounded strongly to 51.1%, the strongest reading in 9 months. Caution is in order, however, as the rebound may partly reflect seasonal effects following the Chinese New Year (a strong February export outturn was similarly reported by Korea today).The import subcomponent also rebounded, a sign of robust domestic demand as well as an indication of demand for imported components to meet export orders.
- **A number of important economic indicators will be released in the coming days (March 9-15),** including inflation, industrial production, retail sales, inflation, trade, and credit aggregates. We will watch these closely for signs of further moderating trends in inflation and resilience of domestic demand. On the former, we expect a decline of inflation for February to 3.2% y/y from 4.5% in January, due to declining food prices as well as base effects from the CNY (held in February last year, as opposed to January this year).
- **Also note that the annual National People's Congress (NPC), the key economic decision-making event of 2012, is scheduled to begin work on March 5.** The NPC will formally establish 2012 budget plans, policy priorities, and growth and inflation targets. We expect the growth and inflation targets to be around 7.5% and 4.0% respectively, although these are seen as minimum objectives rather than projections (GDP outturns typically exceed the targets).

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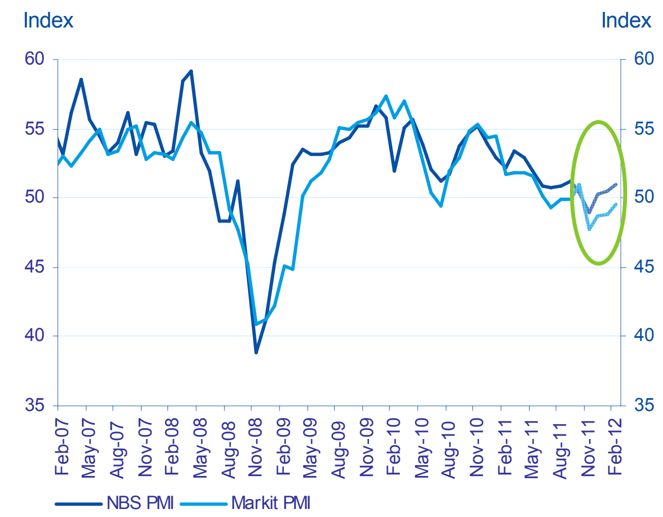
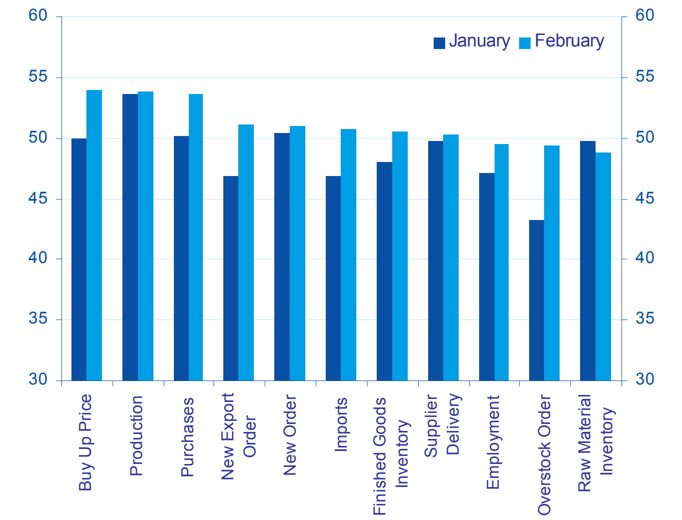
Chart 1
January PMI shows another increase



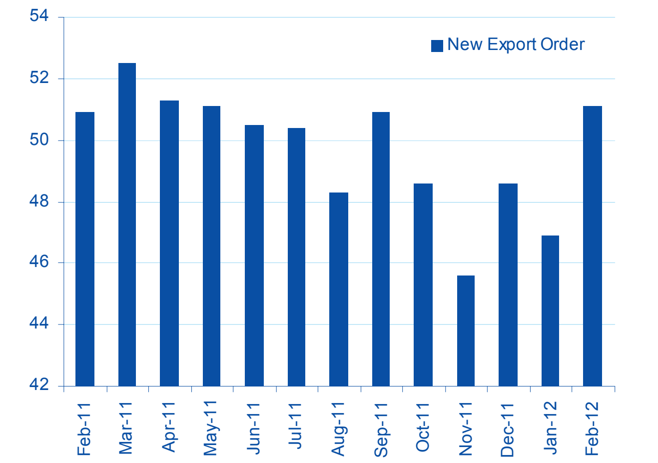
Source: CEIC and BBVA Research

Chart 2
The pickup in PMI was broad-based



Source: CEIC and BBVA Research

Chart 3
New export order component rebounded to 9 month high



Source: CEIC and BBVA Research

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