# China Flash

## January PMI disappoints, but recovery remains intact

The official NBS PMI for January released today disappointed to the downside at 50.4 (consensus: 51.0; BBVA: 50.5; prior: 50.6), but nevertheless remains above the 50 expansion/contraction threshold, for a fourth consecutive month. Caution is in order in interpreting the outturn, however, as data for January and February will be heavily distorted by the timing of the week-long Chinese New Year holiday (CNY, beginning on February 10). While the outturn was well below consensus expectations, it was only marginally lower than our forecast and in our view is still in line with a moderate recovery ahead. A range of other activity indicators have consistently turned upward (see China Flash), including today's Markit/HSBC PMI (covering smaller manufacturers), which hit a two-year high at 52.3 for January from 51.5 in December. Relative to recent bullish market forecasts, our 2013 growth projection is on the conservative side, at 8.0% (following last year's outturn of 7.8%) given our expectations of some loss in momentum in H2 as policy stimulus is gradually withdrawn.

- **The official PMI for January declines on lower production and CNY distortions (Charts 1 and 2).** The production sub-index in January fell to 51.3 from 52.0 in December, while new orders increased to 51.6 from 51.2 – a potential sign of continued strong demand in the coming months. Raw material inventory rose to 50.1 from 47.3, suggesting some restock by firms. On the weak side, new export orders fell to 48.5 from 50.0 in December, indicating that the growth pickup is due to domestic demand. The overall outturn may also be distorted by a significant increase in the sample size of the NBS PMI – while inclusion of more firms should increase the reliability of the statistic, in the near term it may cause a break with the historical series.
- **Looking for more data and policy clarity in March.** The next set of meaningful indicators will be released in March, with combined January and February outturns (IP, investment, retail sales, etc.) to be released to avoid CNY distortions (recall that CNY last year occurred in January, rather than in February this year); indicators for inflation, bank credit, and trade data will be released on the usual monthly schedule, in February. On the policy front, we will be watching for the annual National People's Congress (NPC) Peoples' Political Consultative Conference (CPPCC) to be held in March, where the 2013 budget and policy initiatives of the new leadership team will be announced. The team will be officially installed in March, and has so far indicated policy continuity in 2013 with respect to supportive macro policies and continued economic reforms.

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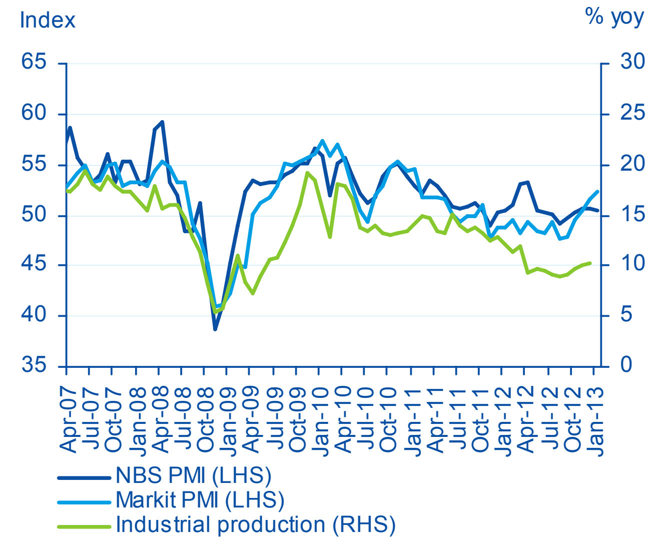
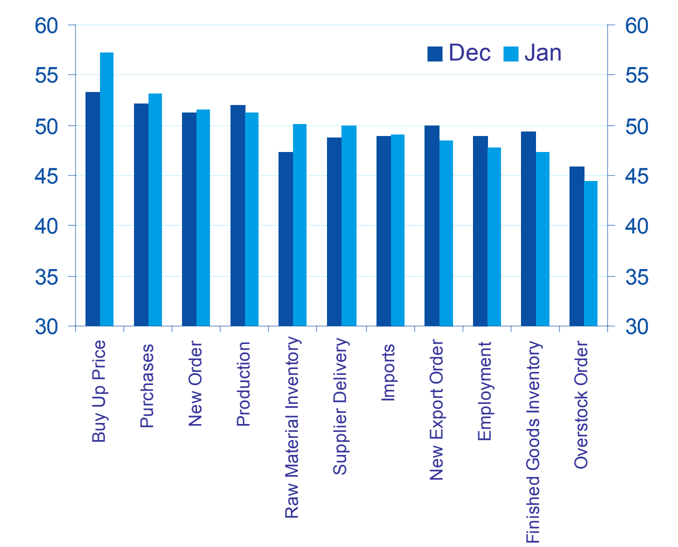
Chart 1
**Official PMI remains above the expansion zone…**




Source: CEIC and BBVA Research

Chart 2
**… and a rise in new orders signals strong demand**




Source: CEIC and BBVA Research

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