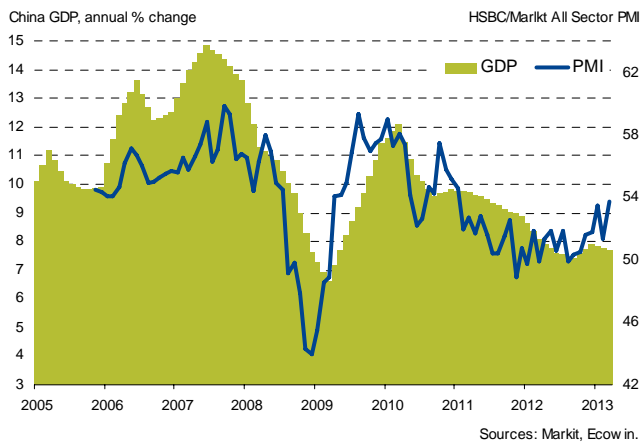


China

Economic growth slowdown contrasts with upbeat signals from business

- **GDP growth slows to 7.7% in Q1**
- **Industrial production growth weakens to 8.9%**
- **Retail sales show 12.6% rise oya in March**
- **Fixed asset investment up 28.9% oya v 24.3% in December**

PMI and GDP compared



Official data brought disappointing news on the performance of the world's second largest economy at the start of 2013, with economic growth slowing rather than accelerating in China in the first quarter, as analysts had been anticipating. However, several factors suggest that the slowdown could merely be temporary.

Economic growth slowed unexpectedly in the first quarter. The country's gross domestic product (GDP) grew at an annual rate of 7.7%, down from 7.9% in the fourth quarter of last year, according to the National Bureau of Statistics.

Analysts had been expecting the rate of growth to have continued to accelerate from the three-and-a-half year low of 7.4% seen in the third quarter of last year, an expectation in part fuelled by the recent improvement in business survey data. The HSBC Manufacturing and Services PMIs, for example, had likewise shown business activity growth slowing in the third quarter, but have since risen – averaging 52.9 in the first quarter compared with 50.7 and 51.3 in the third and fourth quarters of last year respectively.

It was not just the GDP data that were disappointing. Retail sales growth remained disappointingly weak in March, picking up only modestly from 12.3% in February to 12.6% and rounding off the weakest quarter since 2005. Industrial production growth also eased from 10.3% at the end of last year to 8.9% in March.

Investment in fixed assets (excluding rural households) rose at an annual rate of 20.9% in the first quarter, a rate unchanged on the final quarter of 2012.

Temporary slowdown?

It is unlikely, however, that the disappointing data for the first quarter represent the start of a renewed trend of slower economic growth in China, and it remains likely that GDP growth should pick up again in the second quarter.

First, a lag between the official data picking up after the PMI has risen is not unprecedented: GDP lagged considerably in 2009, for example. Markit's PMI also fell sharply in February but rose again in March, possibly reflecting a late pick up in growth in the first quarter which has not been fully captured by the official GDP data.

Second, it is not just the Markit-produced PMI that has signalled an upturn. A government sponsored survey signalled the strongest growth of manufacturing output for ten months in March as order books growth hit an 11-month peak.

Third, the message from companies in China is that the underlying trend in the Chinese economy is improving. Markit's Business Outlook survey showed both China's manufacturing and service sector companies growing more optimistic about prospects for the year ahead in the first quarter. Confidence hit a two-year high in manufacturing, while a near one-year high was seen in services.

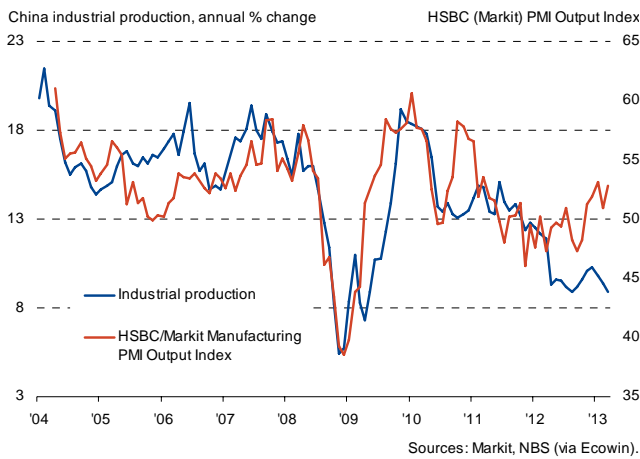
Fourth, a sharp acceleration in bank credit growth in March should also feed through to higher activity in the real economy in the coming months.

Fifth, the data for the first quarter need to be treated with particular caution in the case of China due to the extended and widespread business closures for the New Year holidays.

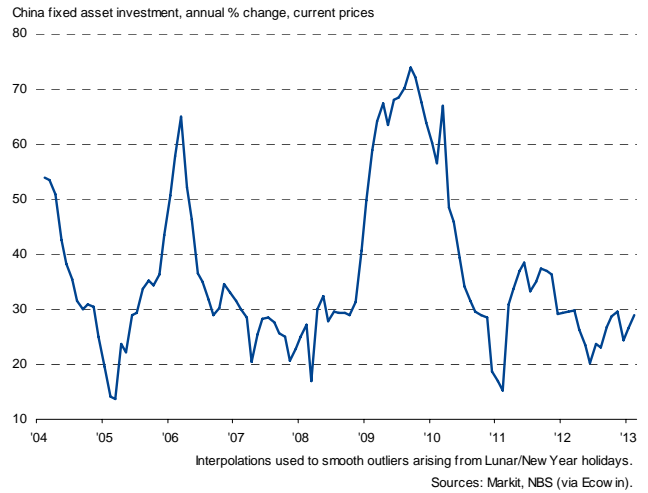
The Chinese authorities have retained the 7.5% growth target for 2013 despite the weakness of the first quarter data, but many private sector analysts have already begun to downgrade their outlooks. Given the uncertainties about growth in the first quarter, a reliable indication of growth momentum in the Chinese economy may only be really known until the second quarter.

Flash PMI data for April are published by HSBC and Markit on 23 April.

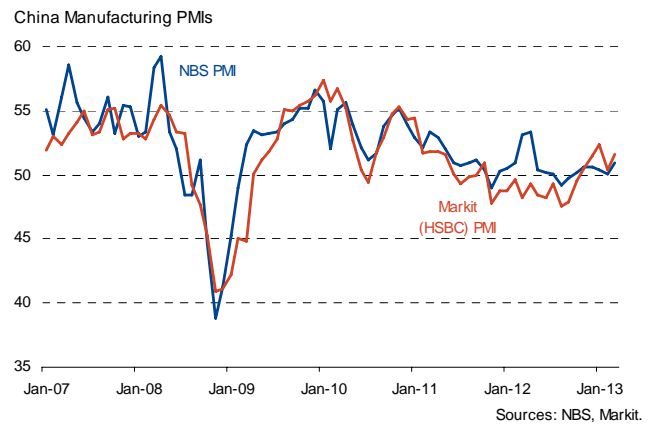
Industrial production



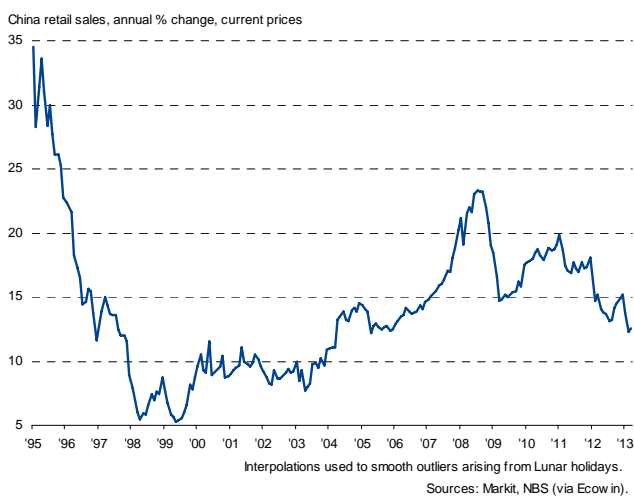
Fixed asset investment



PMI surveys compared



Retail sales



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