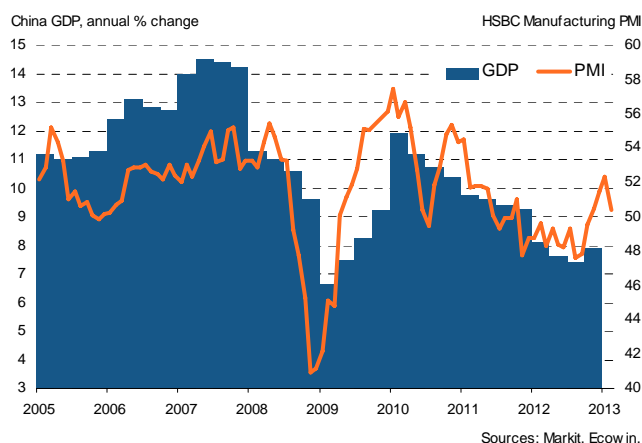


China

Flash Manufacturing PMI signals weakest growth for four months

- **PMI falls in February but manufacturing still set for strongest quarter of growth for two years**
- **Limited gain in employment reflects ongoing uncertainty as export orders dip**
- **Lack of supply chain delays points to low consumer price inflation**

PMI and GDP compared



The HSBC Manufacturing PMI fell from a two-year high of 52.3 in January to 50.4 in February, according to the flash estimate produced by Markit. The latest reading indicated that manufacturing conditions improved for the fourth successive month, but that the rate of improvement was the weakest seen over this period.

At face value, the 1.9 point fall in the index is disappointing, but movements in China's economic indicators around this time of year always need to be treated with caution due to the timing of the New Year holidays. It is useful then to also look at the performance of the economy in recent months instead of placing too much emphasis on just one month's data, and to see where the forward-looking indicators are pointing. In this respect, a brighter picture emerges, though uncertainties remain.

Looking at data for January and February combined, the PMI indicates that the Chinese manufacturing sector is enjoying its strongest quarter of growth since the first quarter of 2011 despite February's dip in the PMI. The average PMI reading for the first quarter so

far of 51.4 compares with a fourth-quarter average of just 50.5, and is broadly consistent with annual GDP growth of 8.5%, up from 7.9% in the fourth quarter.

Furthermore, inventories of finished goods fell during the month, and the combination of falling warehouse stocks of finished goods and ongoing growth of new orders suggests that firms will continue to raise production in coming months, provided demand does not fall back further.

The signal from the orders:inventory ratio is not as strong as in prior months, but nevertheless indicative of stronger production growth than was seen throughout 2012. The latest official data showed industrial production growing at an annual rate of 10.3% in December; the fastest for nine months. Even taking into account the recent dip, the PMI's orders:inventory ratio is running at a level consistent with 12% growth.

Employment

With warehouse stocks falling but demand continuing to improve, it was not surprising to see manufacturers take on extra staff for the third consecutive month in February. However, in a reminder of how fragile the upturn remains, growth of employment was once again only marginal as many firms remained reluctant to boost payroll numbers given the uncertain economic outlook at home and abroad.

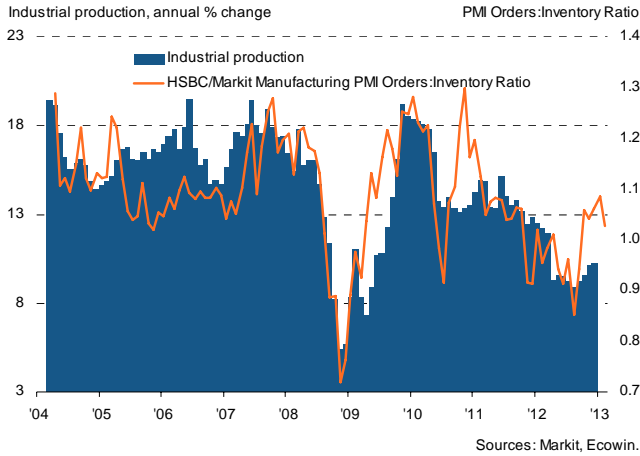
The fragility of demand was highlighted by a marginal fall in new export orders, though the rate of decline was far less severe than seen throughout much of last year.

Prices

Finally, prices were largely unchanged in February, with modest growth of input costs feeding through to only a marginal rise in manufacturers' selling prices. The weak price pressures reflected few capacity constraints in the manufacturing supply chain, as reflected in a small improvement in delivery times, which in turn bodes well for consumer price inflation, which fell from 2.5% in December to 2.0% in January.

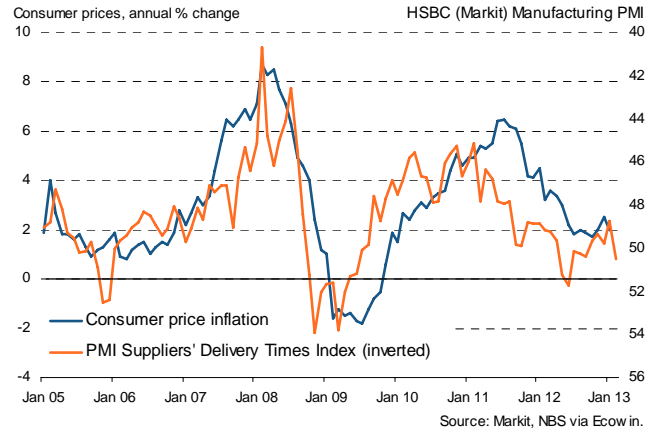
Order book situation

Orders:inventory ratio and output

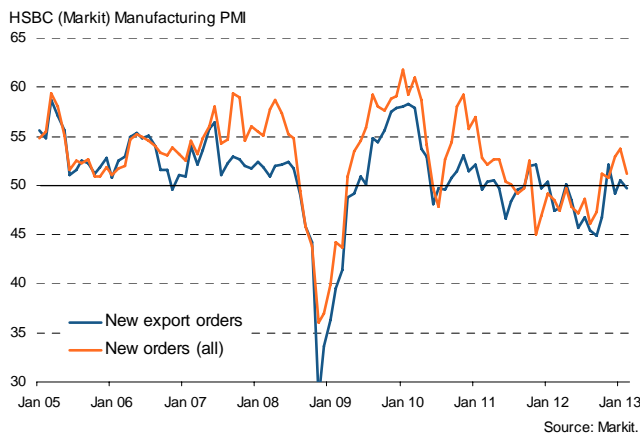


Prices

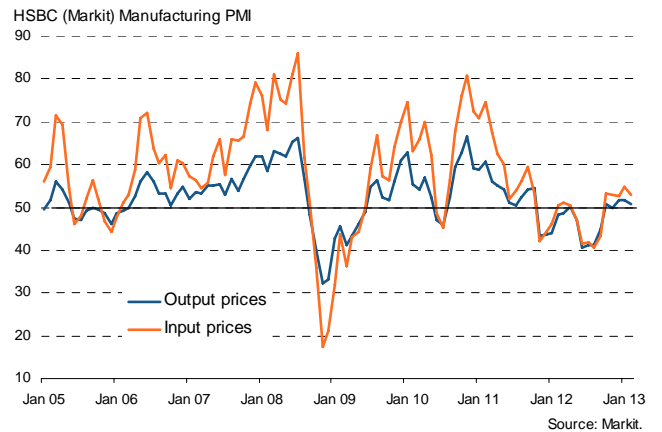
Delivery delays and inflation



Exports and order books)



Input and output prices



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