

# China

## Economy in worst growth patch since early-2009

- **PMI hints a further GDP slowdown in Q2**
- **Cost cutting in focus as demand for investment goods slumps and headcounts fall**
- **Output prices decline amid weak demand**

Markit's PMI survey data signal a further slowdown in the manufacturing sector while the services economy stagnates. A deteriorating order book trend and darkening outlook is meanwhile causing companies to retrench in terms of investment and hiring. This soft patch is naturally feeding through to a weakening of price pressures.

### Business activity continues to decline

Overall business activity in China contracted slightly for a third successive month in April, according to Markit's PMI surveys, which are sponsored by HSBC.

The weakness of the survey and official data add to the likelihood that economic growth will have slowed in the second quarter from the already soft 7.4% annual rate of expansion seen in the first quarter. As such, the data raise the possibility of the economy failing to meet the government's 7.5% growth target for 2014.

The composite PMI Output Index, which covers both manufacturing and services edged up from 49.3 in March to 49.5 in April, but remained below the 50.0 no change level for a third month running. This represents the worst period of growth for the Chinese economy since the three months to March 2009.

The economic weakness is broad-based, with only modest growth in services failing to fully offset a declining manufacturing sector.

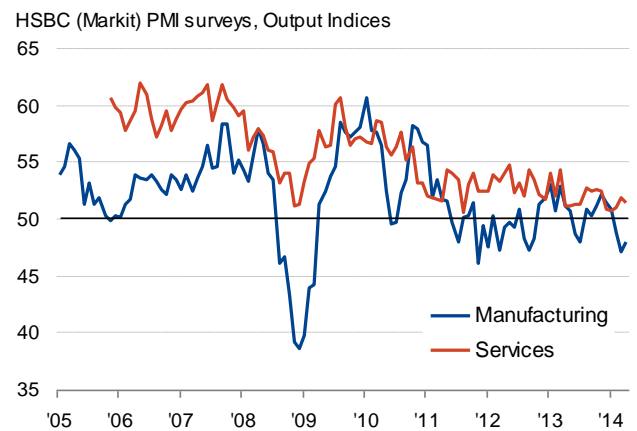
Manufacturing output fell for a third straight month in April, according to the PMI. Although the rate of decline eased slightly, it nevertheless remained one of the steepest seen since the 2008-9 financial crisis. Official data likewise reveal a contracting industrial sector, with production falling 0.7% in the three months to April. Production now stands at its lowest since June 2009.

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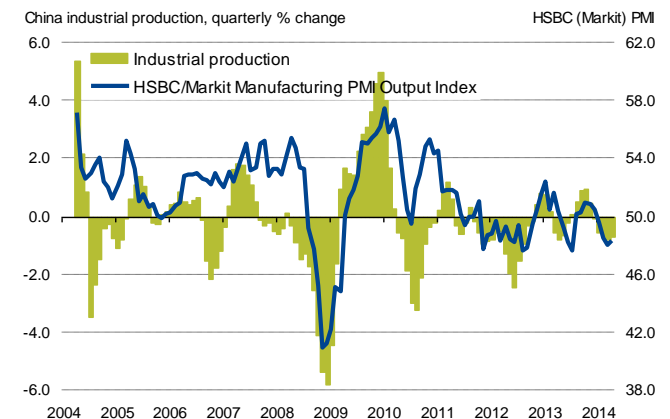
### Economic growth and the PMI



### Manufacturing and services



### Industrial production



Sources: Markit, HSBC, NBS (via EcoWin)

The downturn in the goods-producing sector has been in part caused by falling exports, which fell for the fourth time in the past five months in April.

However, the decline in recent months has been less steep than signalled by the official data, which is believed to have been distorted in recent years. The drop in exports is also substantially less than the decline in total new orders, which suggests domestic demand has waned to a greater extent than export demand.

### Investment slowdown?

Looking deeper into the manufacturing data shows that producers of investment goods such as plant and machinery are seeing the steepest downturn in new orders, with the recent trend the worst seen since 2009. Given that producers of investment goods saw a marginal rise in exports orders in the three months to April, the steep decline in total new order books in this sector hints at a significant downturn in domestic investment.

However, new orders for intermediate goods (components into other companies' goods) are also falling, suggesting a destocking cycle is still underway, while orders for consumer goods are stagnating. The latter points to weak retail sales growth in coming months. Official data showed retail sales up 11.9% year-on-year in April: an impressive rate of growth by developed world standards but one of the weakest seen in China over the past decade.

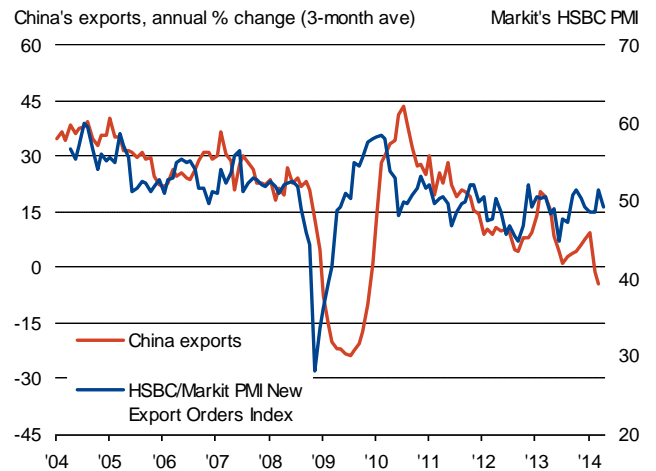
### Near-stagnation seen in service sector

Recent trends in the services economy are also a concern. Although, at 51.4, the Business Activity Index from the services PMI is above the recent low of 50.7 in January, the rate of growth being signalled is only very modest. The extent of the current bout of weakness is further highlighted by the fact that the lowest index reading since data collection began in late-2005 was 50.6.

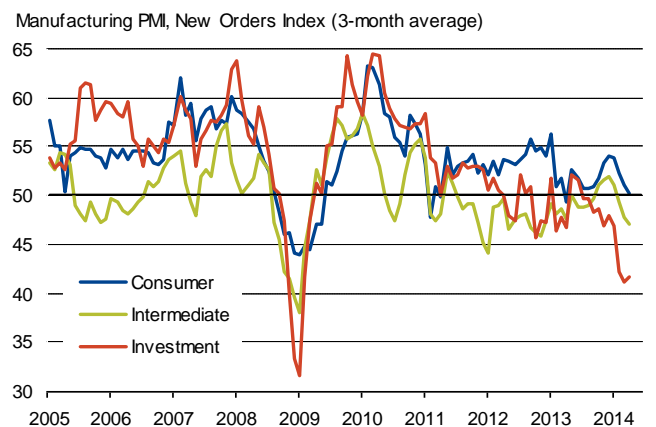
Furthermore, having picked up slightly earlier in the year, business sentiment about the year ahead in the service sector fell in April. Although up on some of the lows seen last year, the latest reading is among the weakest seen in the survey history, representing a disappointing outlook.

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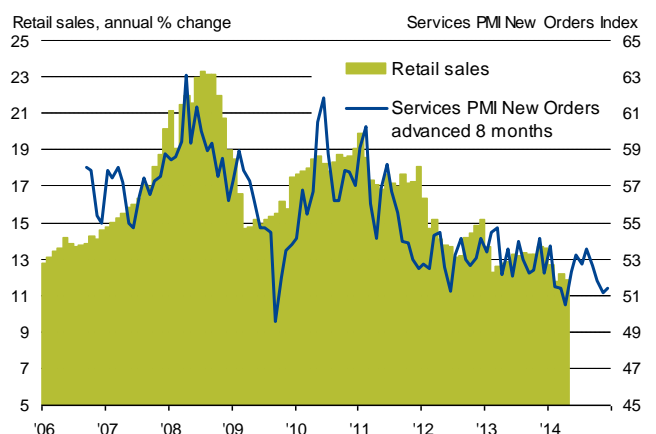
### Goods exports



### New orders by type of good produced



### Services PMI advanced 8 months and retail sales



Sources: Markit, HSBC, NBS (via EcoWin)

## Employers cut headcounts

Backlogs of work fell slightly in both sectors again in April, which many firms responded to by cutting capacity, especially in the manufacturing sector. Reflecting the order book trend, job cuts were most pronounced among producers of investment goods.

## Prices fall

The weakness of demand is also feeding through to lower prices. Service providers cut their selling prices for the first time in three months during April, while manufacturers cut their output charges solidly. Input costs in the goods producing sector also fell solidly in April, as suppliers often fought for business by reducing prices.

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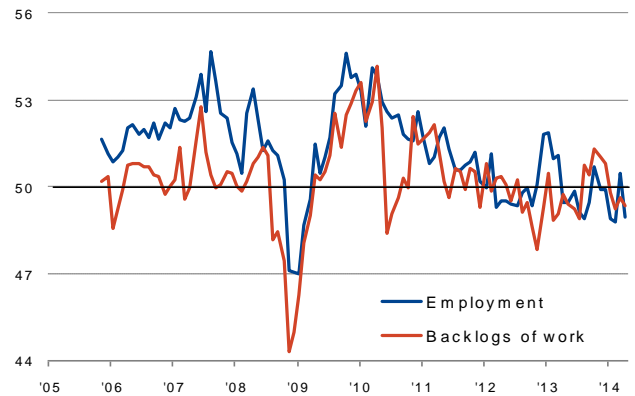
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[Click here](#) for more PMI and economic commentary.

For further information, please visit [www.markit.com](http://www.markit.com)

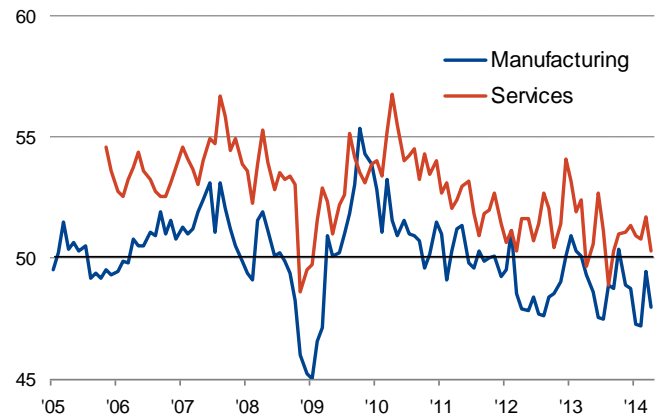
## Backlogs of work and employment

HSBC (Markit) PMI survey data (manufacturing & services)



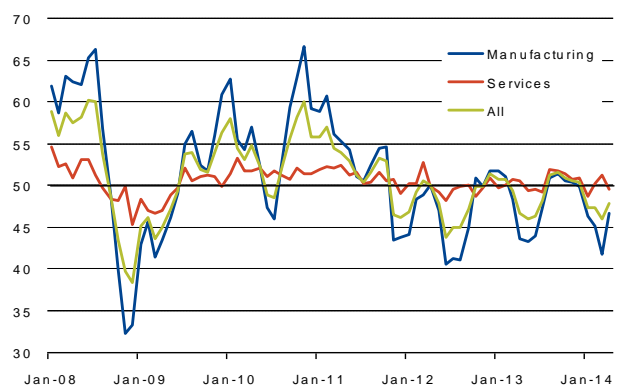
## Employment by sector

HSBC (Markit) PMI surveys, Employment Indices



## Prices charged by sector

HSBC (Markit) PMI surveys, Output Price Indices



Sources: Markit, HSBC, NBS (via EcoWin)