

China

Economic growth slips to 7.5%, with chance of further weakness ahead

- Economic growth weakest since Q3 2012
- Industrial production growth down to 8.9%
- Retail sales growth picks up to 13.3%

China's economic growth rate slowed for a second successive quarter in the three months to June. Official data showed gross domestic product up 7.5% on a year ago in the second quarter, down from 7.7% in the first quarter and 7.9% in the closing months of last year. The official data follow signs of deteriorating growth from the business surveys, which also indicate that growth could weaken further.

Markit's monthly manufacturing and services PMI surveys, produced on behalf of HSBC, collectively indicated the first contraction of economic activity for ten months in June, the rate of growth having slowed over the previous two months.

Markit's global [Business Outlook survey](#) meanwhile found firms' optimism for business activity growth in the year ahead to have fallen sharply in June compared to earlier in the year, back down to the post-crisis low recorded in late-2011. Optimism in the service sector was the lowest since data collection began in late-2007, while manufacturers were the least upbeat since late-2011.

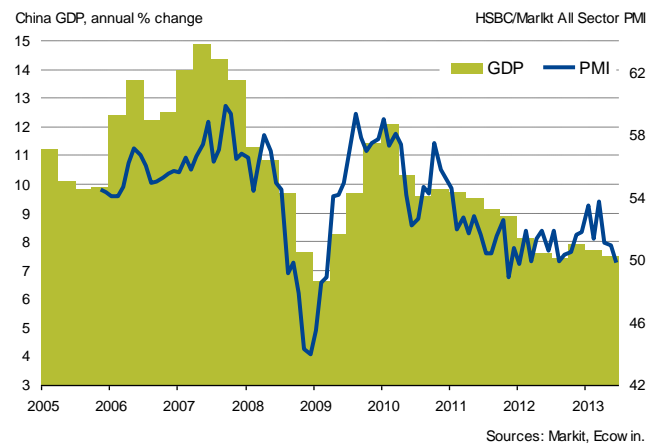
China's companies are facing the multiple headwinds of weaker global demand, tough competition in overseas markets, a downturn in domestic demand and signs of a credit squeeze in the country's financial system.

These headwinds have been reflected in annual growth of industrial production slowing from 9.2% in May to 8.9% in June – a rate of growth below which the sector has not succumbed since April 2009. [Exports meanwhile fell](#) at the fastest rate since October 2009 in June, slumping some 3.1% on a year ago – broadly in line with the signal from the PMI.

Official data also showed retail sales rising 13.3% on a year ago. While that was the fastest rate of growth seen so far this year, the pace of sales growth remains

well below the average seen over the past five years, which points to sluggish domestic demand.

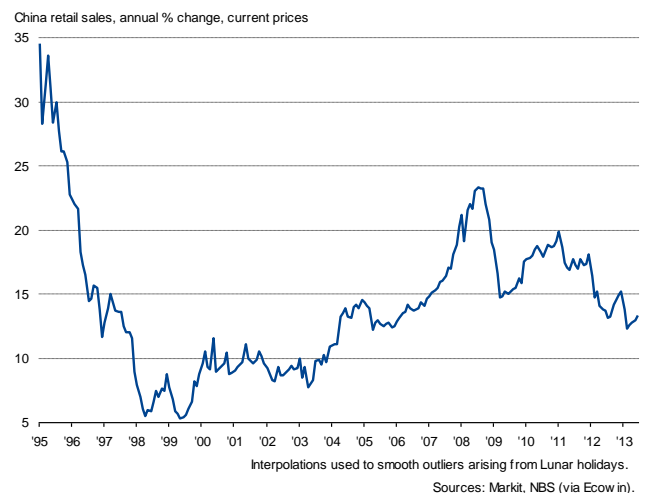
China GDP



Export indicators



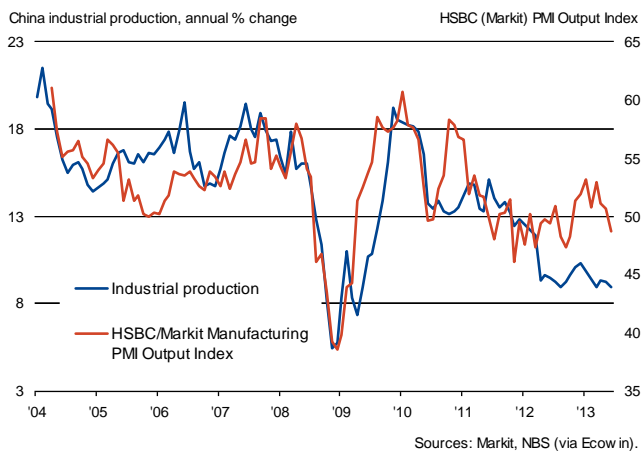
Retail sales



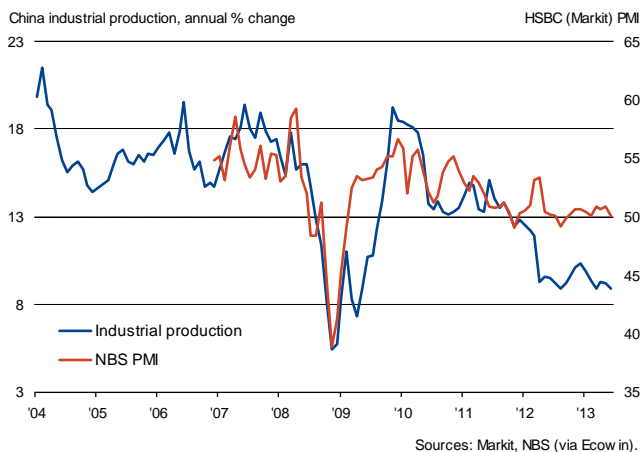
The Chinese government's official growth target for the year is for GDP to rise by 7.5%, the lowest for almost 25 years and indicative of the regime's lack of priority for all-out economic expansion. Instead, the government is seeking to reform the economy, moving away from exports and investment to domestic-oriented consumption.

Analysts generally consider the government is willing to allow the pace of expansion to slip even further from the current 7.5%, providing unemployment does not start to rise.

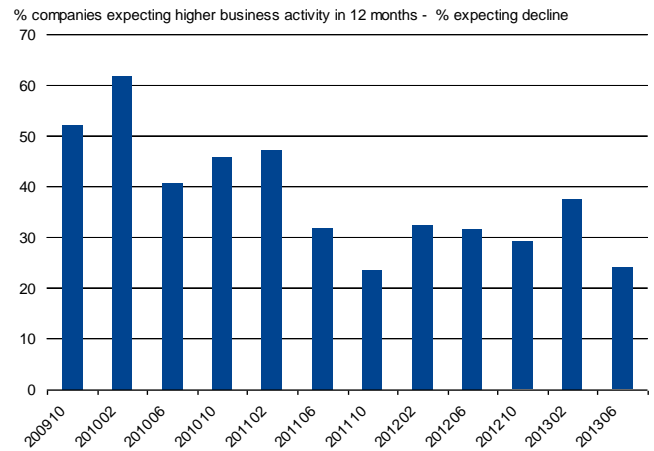
HSBC (Markit) manufacturing PMI survey



NBS manufacturing PMI survey



Markit Business Outlook Survey: China



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