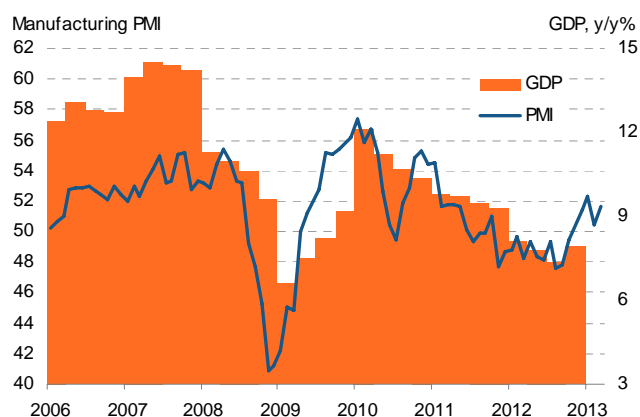


China

Flash Manufacturing PMI rebounds to signal strengthening upturn

- **PMI rebounds in March to round off strongest quarter for two years**
- **Output and new orders both grow at faster rates**
- **Employment growth wanes to near-stagnation as uncertainty persists**

PMI and GDP compared



The HSBC Manufacturing PMI rose to 51.7 in March, according to the flash estimate produced by Markit, rebounding from February's four-month low of 50.4. The upturn signalled the strongest pace of expansion for 23 months with the exception of January's two-year high. The above-50 reading means manufacturing conditions having now improved for five successive months following a 12-month period of decline.

At 51.5, the average PMI reading for the first quarter as a whole is up from 50.5 in the fourth quarter, and suggests that the country's producers enjoyed the strongest quarterly upturn for two years. The survey therefore also bodes well for China's economic growth rate to have accelerated from the 7.9% annual pace seen in the final quarter of last year.

The rebound in the PMI suggests that at least some of the slowing in the pace of growth in February had been attributable to a stronger than usual seasonal impact from the New Year holidays, and provides encouraging indications that the economy is not facing a renewed weakening. Output growth accelerated to the second-strongest rate seen in the past two years, fuelled by

new orders growing at a pace just shy of January's two-year peak.

The upturn in order also bodes well for April: the forward-looking orders-to-inventory ratio remains at a level consistent with further strong production growth in coming months. The latest available official data showed industrial production expanding at an annual rate of 10.3% in December; the fastest for nine months, but historical comparisons suggest that the PMI's orders:inventory ratio is running at a level broadly consistent with a 13% growth rate.

Rising confidence

The upturn in the monthly PMI adds to evidence from Markit's Business Outlook survey, which showed China's manufacturing and service sector companies both growing more optimistic about prospects for the year ahead. The survey found confidence to be running at the highest for two years in manufacturing.

Employment

Disappointingly, March's upturn in output and new orders growth was not matched by a corresponding increase in hiring. In contrast, manufacturing employment growth slowed to near stagnation, showing the smallest rise for three months.

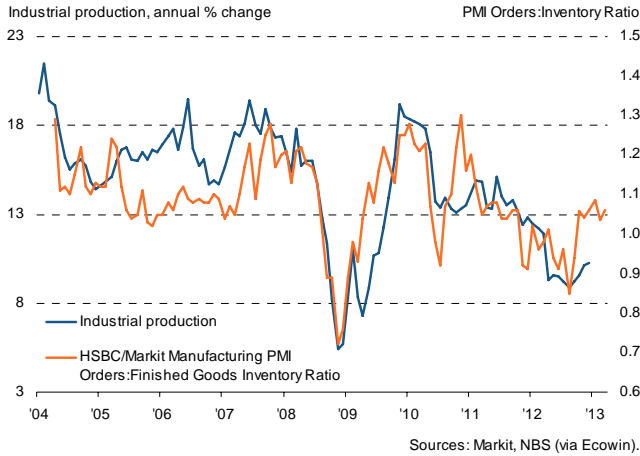
A reticence of employers to take on extra staff due to the uncertain economic environment had been highlighted by the Outlook survey, and March's marginal rise in staffing levels suggest that companies remain reluctant to recruit in the face of continued concerns over the strength of demand, especially in export markets. Although the March survey saw export orders rising to the greatest extent in four months, the increase was only very modest.

Prices

Finally, manufacturers reported the steepest cut to their selling prices for six months in March, in part reflecting lower raw material costs. Average input prices fell slightly for the first time in six months.

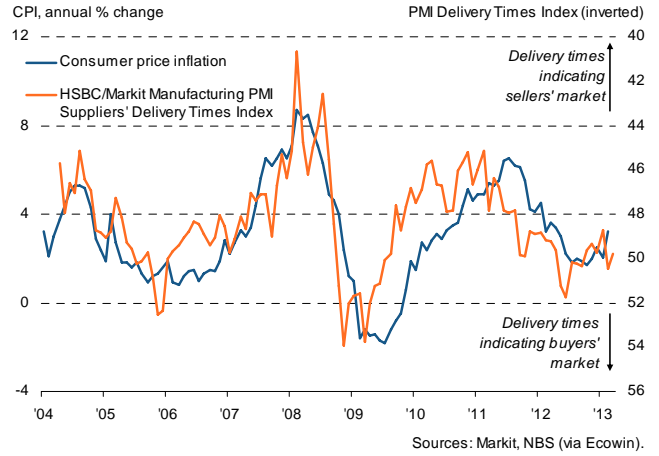
Order book situation

Orders:inventory ratio and output

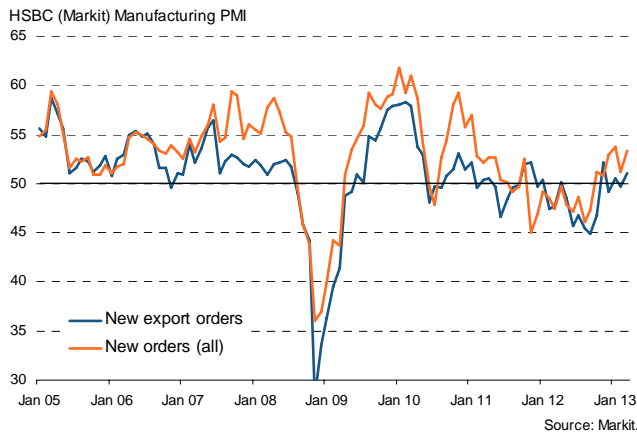


Prices

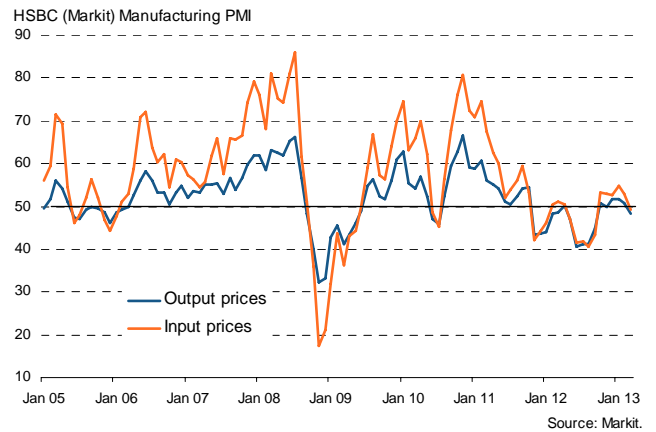
Delivery delays and inflation



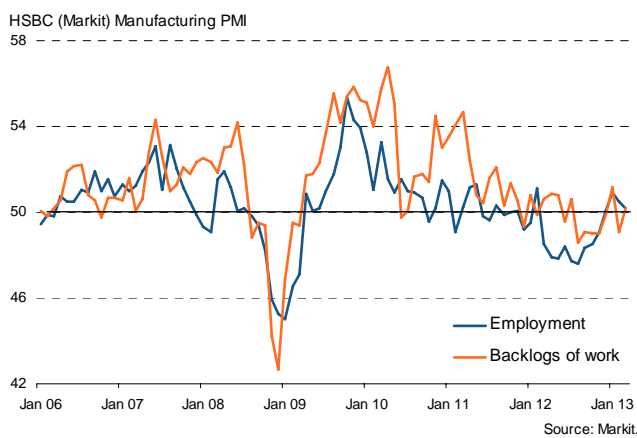
Exports and order books



Input and output prices



Employment and backlogs



Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com