

Economic Analysis

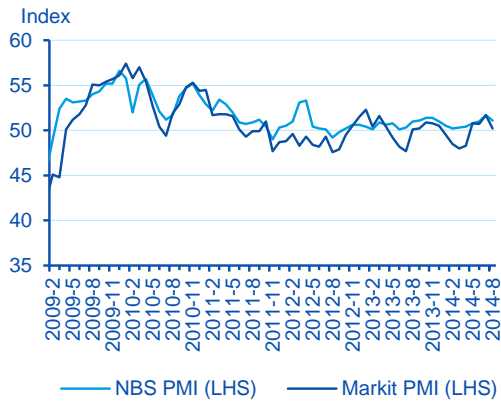
August PMIs point to a moderated growth momentum and call for further monetary easing

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China's official PMI (released by NBS) for August came in at 51.1, a tad below market expectations (consensus: 51.2) and down from a 27-month high of 51.7 in July. The outturn indicates that the growth momentum has somewhat weakened although the economy still remained in an expansion territory (Figure 1). The decrease was broad-based: both new orders and production subcomponents have decreased by around 1 point from their July readings; while new export orders declined to the 50.0 watershed level, reflecting increasing uncertainty of the external demand. (Figure 2) In the meantime, the HSBC China Final Manufacturing PMI, which is also released today, falls more steeply to 50.2 from 51.7 of July. Taken together, manufacturing activities seemed to slow its pace in August. Nevertheless, with the implementation of further pro-growth measures that we pencil in, the growth rate can be sustained around 7.0% in the third and fourth quarters, which will make our full-year growth rate of 7.2% still achievable.

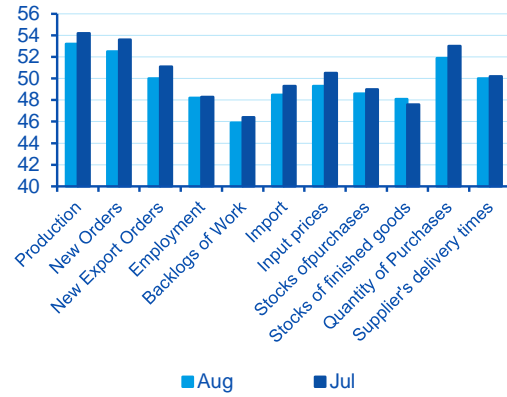
- **The new export order index contracted to the 50.0 dividing line, indicating increasing uncertainty of the external demand.** The new export order reading declined by 1.1 points to 50.0, which is the watershed between contraction and expansion. Despite July's notable growth outturn of shipment (14.5% y/y), the outlook of the export sector has become uncertain again as recent escalation of geopolitical risks in Ukraine and the Middle East derailed the fragile recovery in Europe. Moreover, the increasing deflation risk to Europe and the tax-hike-induced weak consumption in Japan have also dampened their demands for "Made-in-China".
- **The widening gap between the official and HSBC PMIs underscores SMEs' financing difficulty.** It is noted that after a short spun of convergence between the official and HSBC PMI outturns, the gap between them has started to widen again in August. Given that the HSBC PMI is believed to be based on a survey sample which is tilted toward SMEs, the widening gap might underscore the SMEs' difficulty in accessing funds with reasonable financing costs, as evidenced by the decline of short-term bank loans in July. (See our previous [China Flash](#))
- **On the monetary policy front, we expect the authorities to adopt more growth-supportive measures.** More "targeted easing" monetary policies are expected to be implemented to address the pressing problem of SMEs financing. Toward this end, the People's Bank of China are likely to (i) raise their re-lending quota; (ii) enact more select cuts in Required Reserve Ratio (RRR); and (iii) increase their use of rediscount windows. Moreover, to revive the subdued the property market and contain the risk of housing bubble burst, the authorities could implement a couple of RRR cuts in the coming months. In our view, the reduction in interest rates is the least likely choice for monetary easing given that its effectiveness has been largely limited by the ongoing interest rate liberalization.

Figure 1
Official NBS PMI moderated in August.



Source: NBS and BBVA Research

Figure 2
The decline of PMI outturns are broad-based



Source: NBS and BBVA Research

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