

Economic Analysis

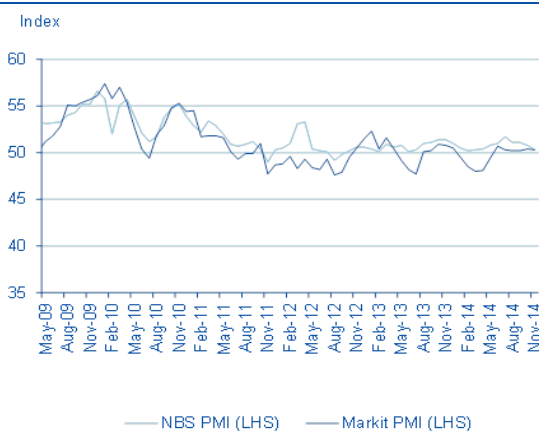
November PMIs point to a further growth slow-down

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China's official PMI (released by NBS) for November came in at 50.3 (versus consensus: 50.5), down from 50.8 in October. It registered an eight-month low although its shows that the economy still remained in an expansion territory (Figure 1). In the meantime, the HSBC China Final Manufacturing PMI, which was also released today, declined to the watershed level of 50.0, down from the October final reading 50.4. Taken together, manufacturing activities have further slowed the pace in November amidst of intensified growth headwinds. Nevertheless, as the authorities have beefed up their efforts of monetary easing, which is mirrored by the PBoC's unanticipated interest rate cut on November 21th, growth can be sustained at around 7.2% in the fourth quarter, making our full-year growth rate of 7.3% still achievable.

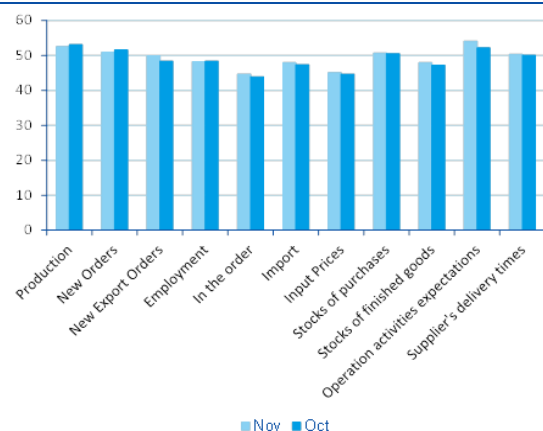
- By category, the decreases of NBS PMI sub-index were broad-based.** The index of New Orders dropped by 0.7 points to 50.9 from 51.6 in October. In particular, new export orders fell by 1.5 points to 48.4, reflecting increasing uncertainties of the external demand. In the meantime, the Production Index fell to 52.5 from its October reading 53.1 while the Employment index hovered around within the below-50 contraction zone, indicating that the labour market condition is deteriorating, albeit with a mild pace. In addition, decreasing input price and low capacity utilization pointed to insufficient demand in the economy (Figure 2). In sum, the uncertainties from the property market and external demand continued to hamper economic growth in November.
- On the monetary policy front, we expect the authorities to adopt more conventional monetary easing measures in the coming months.** Recent sluggish economy has prompted the PBoC to cut interest rate on November 21th, which was likely to set off a series of conventional monetary loosening measures in the coming months to prevent a sharp drop in growth. We project that they will cut interest rates by one or two times additionally. On the other hand, we deem the usage of quantitative tools still unavoidable. In this respect we forecast that the authorities will trim the Reserve Required Ratio (RRR) at least twice between now and the end of next year.

Figure 1
Official NBS PMI further moderated in November



Source: NBS and BBVA Research

Figure 2
The decline of NBS PMI outturns are broad-based



Source: NBS and BBVA Research

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