

Economic Analysis

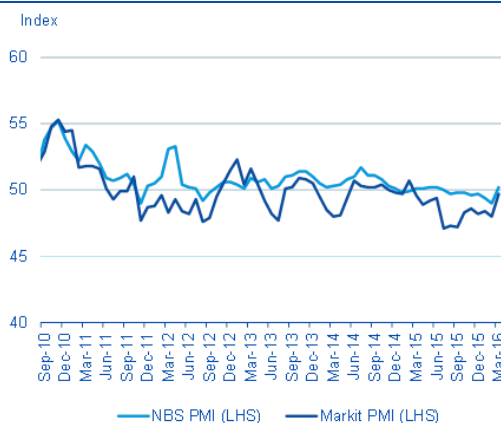
China | March PMI outturns see green shoots of economic recovery

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China's official manufacturing PMI (released by NBS today) increased significantly in March, up from 49 in February to 50.2 (Consensus: 49.4), the first time surpassing the watershed level since July 2015. Following the same trend, the Caixin China Manufacturing PMI (the previous HSBC Markit PMI which includes a survey sample tilting toward SMEs and exporters) surged to 49.7 in March from 48 in the previous month. (Figure 1) Overall, manufacturing activities have shown significant recovery sign at end of the first quarter due to the pick-up of domestic and external demand as well as the authorities' stepped-up efforts of monetary easing and fiscal expansion. Looking ahead, we expect the authorities to maintain their easing stance of monetary and fiscal policies to boost growth. That being said, growth is likely to avert a hard-landing this year despite strong headwinds (our 2016 growth projection: 6.2% versus official target: 6.5%).

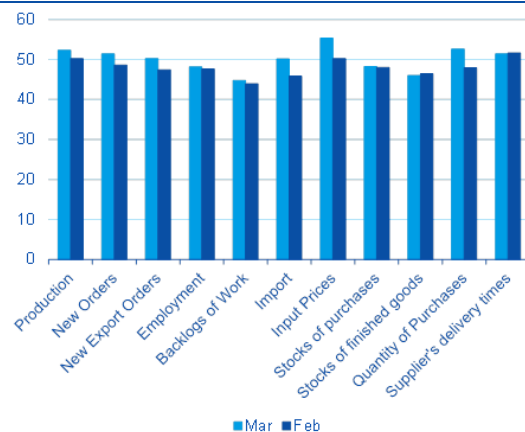
- Broad-based increases in NBS PMI sub-categories:** (i) Both the external and domestic demand showed some positive signals: among which, the index for New Orders expanded by 2.8 percentage points to 51.4. In addition, the New Export Orders Index rebounded to 50.2 from 47.4 in the previous month, the first time surpassing the watershed since October 2014. (ii) The production activities improved: the Production Index increased to 52.3 from the last month's reading of 50.2; moreover, the Employment Index increased by 0.5 percentage points to 48.1, although it is still below the watershed level in the past 46 months. (iii) Prices picked up as well: input price index increased to 55.3 from 50.2, mainly due to the upward commodity prices stimulated by the delay of the FED interest rate hike. (Figure 2)
- The rebounding PMI outturns are mainly led by a combination of a stimulus-driven credit boom and a pick-up in external demand.** Domestically, a booming housing market, caused by recent relaxation of tightening measures, rejuvenate the previously sluggish property investment; in addition, the authorities' have unveiled a new wave of "growth-stimulus" projects since the beginning of this year. On the external front, the delay of the FED interest rate hike helped to repair market sentiment and lift export demand.

Figure 1
Both NBS PMI and Caixin China PMI picked up significantly in March



Source: CEIC and BBVA Research

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



Source: NBS and BBVA Research

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