

THEME

China | Upbeat PMI outturns confirm the ongoing recovery

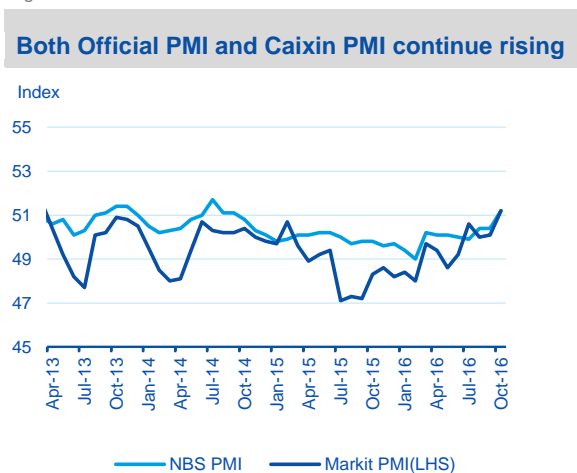
Jinyue Dong / Le Xia

China's manufacturing PMIs rose up further in October despite the recently reinstated tightening measures on the property market. It has given certain upward surprise to the market as the majority of analysts had anticipated a softening of economic activities. The NBS manufacturing PMI came out at 51.2 in October (Consensus: 50.3 versus September: 50.4) while Caixin manufacturing PMI stood at 51.2 (Consensus: 50.3 versus September: 50.4). More importantly, the pickup in NBS PMI was primarily driven by better performance of small-and-medium enterprises (SMEs). It largely explains the strong co-movement between the NBS and Caixin PMIs this time as the latter tracks a firm sample with a larger proportion SMEs. Put together, upbeat PMI outturns in October indicate manufacturing activities have gained traction of late. It seems that some positive price signals (in September year-on-year PPI growth turned positive for the first time over the past four years) have stimulated firms to accelerate production and pile up their inventory levels again. However, optimists should take a grain of salt. The recently imposed tightening measures on the housing market, as well as mounting external uncertainties, are set to weigh on final demand going forward. On balance, we maintain our growth forecast at 6.6% for 2016 and 5.8% for 2017.

The significant pickup of the official manufacturing PMI is broad based by categories: The improvement in the production index and new order index are significant, both reaching the highest level of this year. In addition, the employment and raw material stock indexes also improved although they still remained below the watershed. However, both export order index and import index declined from the previous month's readings and are below the watershed level of 50, pointing to headwinds from the external environment. (Figure 2)

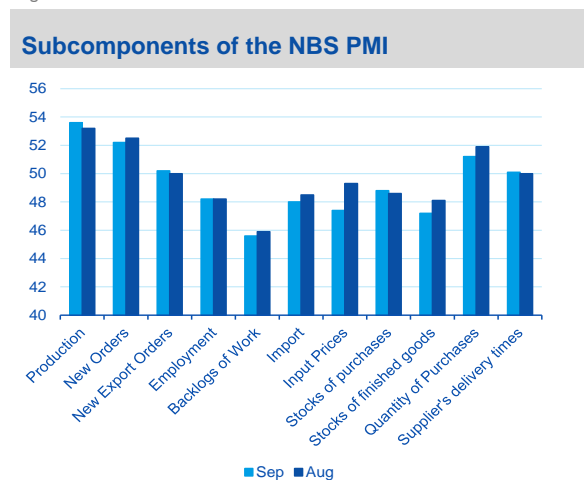
Additional easing measures could be postponed to next year: To a large extent, the PMI outturns mirrored the resilience of China's economy, which not only helps to allay investors' concerns of an imminent hard landing to the second largest economy in the world but also give the authorities more room to contain financial risks and push forward necessary structural reforms. On the policy front, we expect the Central Bank to postpone further policy easing to the next year barring radical changes of the external environment.

Figure 1



Source: BBVA Research

Figure 2



Source: BBVA Research

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