

Economic Analysis

China | February PMIs show the recovery gains momentum while headwinds loom large

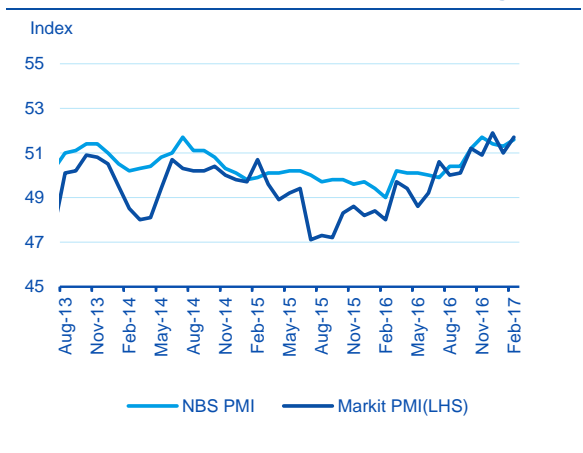
Betty Huang/Le Xia

China's official manufacturing PMI (released by NBS today) picked up to 51.6 in February from 51.3 in January, well above market expectations (Consensus: 51.2). Following the same trend, the Caixin China Manufacturing PMI, which includes a survey sample tilting toward SMEs and exporters, increased to 51.7 in February from 51.0 in the previous month. Both of the manufacturing PMI outturns have been above the 50 watershed level in 7 consecutive months since last August (Figure 1), suggesting the economic recovery continues with a solid pace.

However, the economy is still subject to a number of uncertainties externally and domestically. The authorities have already revealed that they will prioritize stability over growth and vowed to maintain a prudent stance of monetary policy as well as beef up their efforts to crack down rampant shadow banking activities, all of which are expected to bring strong headwinds to growth. On the external front, the rising protectionism and populism are set to dampen the ongoing recovery of global trade and pose material threats to the international financial system. All in all, we maintain our growth forecast at 6.0% for 2017 to reflect growth headwinds lying ahead.

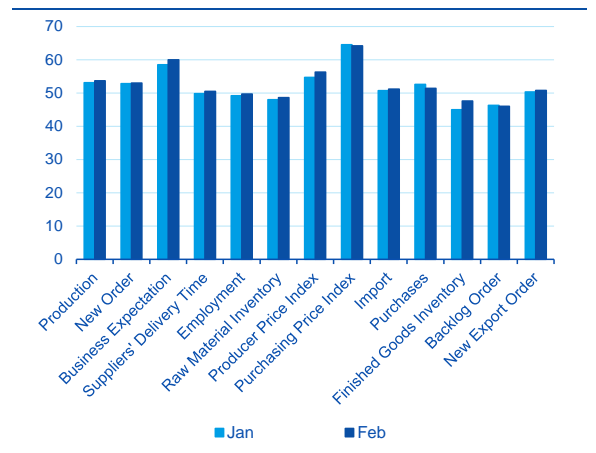
- Broad-based increases in NBS PMI sub-categories:** On the demand side, new order marginally increased to 53, as manufacturing market industry expanded and internal demand gain its momentum. New export order index and import index also picked up (50.8 and 51.2 respectively), showing external environment improved. On the production side, production index increased 0.6 percentage point to 53.7 from last month's reading of 53.1, indicating that manufacturing production continued to expand.
- Tightening measures could come soon:** The upbeat PMIs mirrored the resilience of China's economy. To a certain degree, it could reinforce the government's confidence of pursuing stricter regulations to correct the existing financial vulnerabilities which grew rapidly with the deployment of many distortionary growth-boosting policy initiatives. In the upcoming National People's Congress (NPC), Chinese policymakers are expected to comprehensively reveal their plans to upgrade the regulatory framework of the financial sector.

Figure 1
Both NBS PMI and Caixin China PMI are above the market consensus and the previous readings



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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