

China Flash

Upside surprise for January PMI shows growth resilience

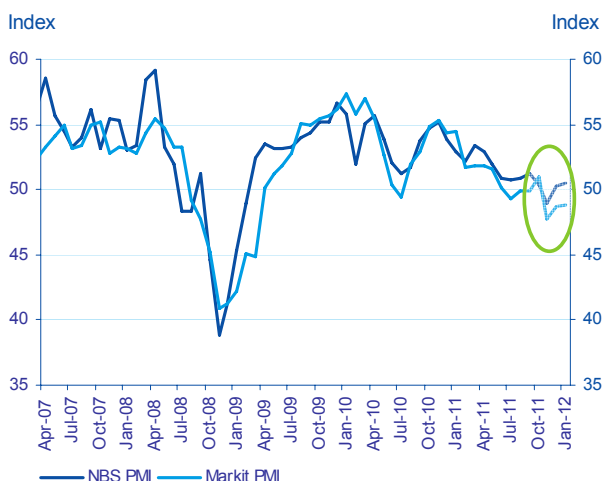
The official Purchasing Managers Index (PMI) for January surprised to the upside, at 50.5% (BBVA: 49.8%; Consensus: 49.7%), an increase from 50.3% in December. The outturn marks a second consecutive month for the PMI above the 50 expansion-threshold (Chart 1), signalling continued growth momentum in the face of external headwinds. Looking within the details, it appears that domestic demand is sustaining growth, as production and new orders increased, despite weakening export orders. Caution needs to be exercised, however, given the presence of strong seasonality effects from the week-long Chinese New Year holiday during which businesses were closed from January 23 (we had expected the PMI to dip below 50 given imperfect seasonal adjustment). That said, the outturn is an encouraging affirmation of sustained growth momentum due to resilient domestic demand which, in turn, is being spurred by a gradual relaxation of the fiscal and monetary policy stances. Going forward, we expect growth momentum to slow in H1, with GDP growth of 8.3% projected for 2012 (our projection for Q1 is 8.7%/y from 8.9% last quarter). Our outlook for up to 150-200 cuts in the RRR cuts in Q1 and Q2 remains intact, along with possible interest rate cuts if the external environment continues to deteriorate.

- **January PMI increased for the second consecutive month to 50.5% from 50.3% in December**, remaining within the 50+ expansion zone. The private-sector (Markit) PMI, also released today, show a similar increasing trend, albeit at lower (contractionary) levels of 48.8%, from 48.7% in December (the Markit index is based on a set of smaller, and more export-oriented companies).
- **By component, the PMI increase was driven by domestic demand (Chart 2).** The production subcomponent (with a weight of 25%) was broadly flat at a still-strong 53.6% in January. New export orders weakened further to 46.9% from 48.6% in December, while the overall new order subcomponent (with a weight of 30%) rose to 50.4% in January from 49.8% in the previous month. These outturns imply that domestic orders and production rose, despite weakening exports. The import subcomponent also weakened to 46.9% from 49.1%, possibly due to lower orders of imported inputs for export production.
- **A number of important economic indicators will be released in the coming days (February 9-15), including inflation, trade, and credit aggregates.** We will watch these indicators closely for signs of further moderating trends in inflation and resilience of domestic demand. On the former, we expect a slight uptick in inflation for January, to 4.4% y/y from 4.1% in December due to the effect of the New Year holiday, a temporary deviation from the moderating trend to around 3% by mid-year.

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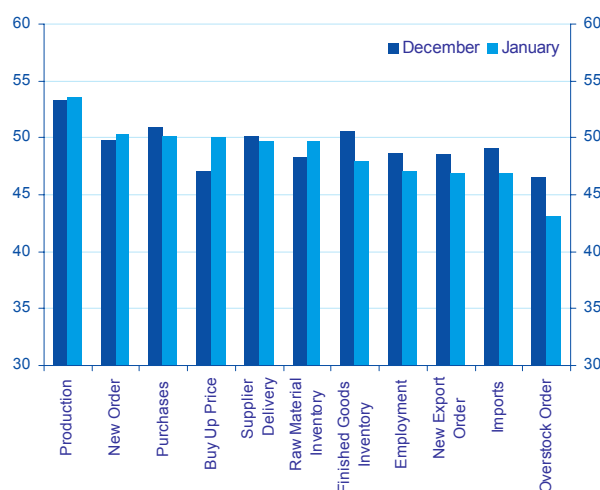
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Chart 1
January PMI shows a further increase



Source: CEIC and BBVA Research

Chart 2
Production and new orders show strength



Source: CEIC and BBVA Research



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