

China Flash

Upside surprise to official March PMI, amidst mixed indicators

The official NBS Purchasing Managers Index (PMI) for March, released yesterday, surprised to the upside at 53.1% (BBVA: 51.0%; Consensus: 50.8%), up from 51.0% in February (Chart 1). At the same time, however, the private-sector (Markit) PMI weakened from the previous month, adding to a set of recent mixed readings on underlying growth momentum. The divergence in the two PMI indices is likely due to lingering Chinese New Year seasonal effects and differences in sample coverage, with the official index covering larger and more domestic-oriented firms, which have been faring better in the current economic climate. On balance, we take some comfort from the strength of the official PMI outturn, as a indication that domestic demand may be holding up better than had been feared. On the basis of further policy easing, we believe that growth momentum is close to bottoming out, in line with our full-year GDP growth projection of 8.3%. We expect another 100-150bp cuts in the RRR in the coming quarters, and up to two interest rate cuts depending on the external outlook.

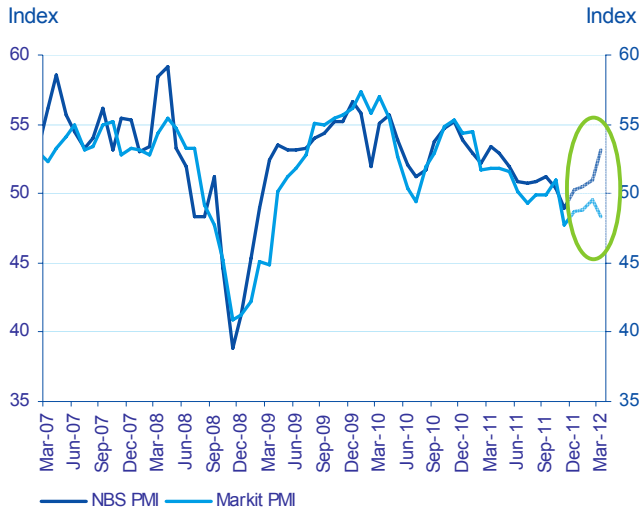
- **The pickup in the official PMI was mainly driven by domestic demand** (Chart 2). Caution in interpreting the data are in order given the presence of lingering seasonal effects (the official PMI for March may tend to overstate the strength of momentum). On the supply side, the production subcomponent (with a weight of 25%) increased to 55.2% from 53.8% in February. The employment subcomponent (with a weight of 20%) improved from 49.5% to 51.0%. On the demand side, the overall new order subcomponent (with a weight of 30%) rose more significantly to 55.1% from 51.0% in the previous month, as a sign that production may pick up in the coming months. While external demand also improved, with the new export order subcomponent rising to 51.9% from 51.1% in February, the upturn has been more sluggish.
- **Recent data are providing a mixed reading on growth momentum.** While the official PMI outturn is encouraging – reflecting a fourth consecutive monthly increase – a number of other indicators point to softer momentum. In particular, the private-sector (Markit) PMI, also released on April 1, moderated to 48.3% from 49.6%, still within the sub-50 contraction zone. The divergence in the indices may reflect differences in seasonal adjustment as well as sample size (the Markit index is based on a sample of smaller, and more export-oriented sample of companies). In addition, recent January/February indicators on credit growth, retail sales, industrial production and profits have been weak.
- **A number of important economic indicators will be released in the coming days (April 8-13)**, including Q1 GDP, March inflation, industrial production, retail sales, inflation, trade, and credit aggregates. We will watch these indicators closely for further insights on growth momentum and the outlook.

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Chart 1

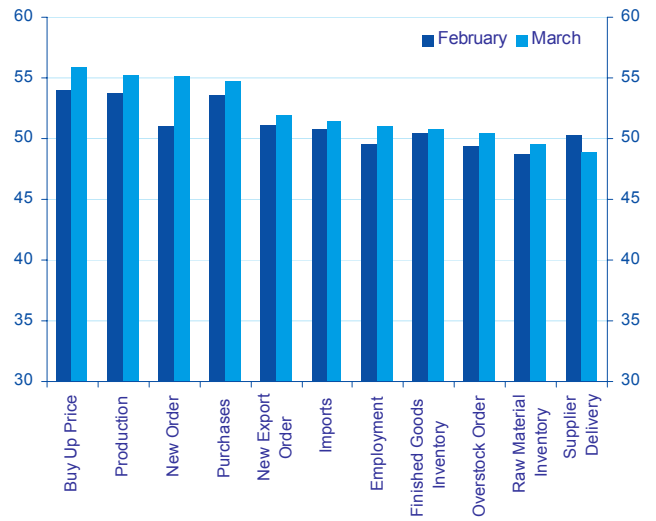
A divergence in PMI outturns



Source: CEIC and BBVA Research

Chart 2

The pickup in March official PMI was broad-based



Source: CEIC and BBVA Research



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