

Flash Comment

China: Slight improvement in NBS PMI, no signs of hard landing

- China's NBS manufacturing in January beat expectations and improved slightly from 50.3 to 50.5. The details are relatively strong with the new order inventory balance continuing to improve. So far there are no signs of a hard landing of the Chinese economy but, on a cautionary note, there are indications that China's imports of particularly commodities could slow in the coming months despite some improvement in the overall economy.
- The January manufacturing PMIs also improved in Japan, India, South Korea and Taiwan, suggesting that the global manufacturing cycle has started to turn.

Details

China's official manufacturing PMI released by China's National Bureau of Statistics improved slightly to 50.5 (consensus: 49.6, Danske Bank: 50.1) in January from 50.3 in December. In addition, there was no revision in connection with the release of the final estimate for the HSBC manufacturing in January. The HSBC manufacturing PMI in January improved marginally to 48.8 from 48.7 in December.

The details were relatively strong with new orders improving slightly from 49.8 to 50.4 and the finished goods inventory component declining substantially from 50.6 to 48.0. Hence, in line with the HSBC manufacturing PMI, the new order inventory balance improved markedly in January (see chart on next page). Export orders declined substantially from 48.6 to 46.9, but this appears to be largely due to seasonal distortions in the NBS PMI. Using our own seasonal adjustment export orders only declined marginally and stayed above 50 in line with export orders in the HSBC manufacturing PMI (see chart on next page).

On a negative note, there are signs that China's imports could weaken in the coming months despite some improvement in the overall economy. As shown in the chart on the next page the import component dropped substantially in January. This is in line with the purchase of input component in the HSBC manufacturing PMI that in the past has been a reasonably successful predictor of China's import growth. In our view the relatively strong imports of particularly commodities in recent months look unsustainable.

Manufacturing PMIs in Asia also improved outside China. In Japan the JMMA/Markit manufacturing PMI (released yesterday) improved from 50.2 to 50.7, in India the manufacturing PMI improved from 54.2 to 57.5, in South Korea it improved from 46.4 to 49.2 and finally in Taiwan it improved from 47.1 to 48.9.

Assessment & outlook

The manufacturing PMIs for January released in China and across the rest of Asia suggest that the global manufacturing cycle has started to turn. For China the message is that the economy appears to be stabilizing, but the level of the manufacturing PMIs still suggests that GDP growth will remain slightly below trend in Q1. This is broadly consistent with our view that GDP growth will improve slightly in Q1 12 but remain below trend. We expect the manufacturing PMIs to improve to the 52-53 range in the coming months.

The manufacturing PMIs certainly do not suggest that China is facing a hard landing and we expect the policy response to be very cautious in the coming months. The reserve requirement will be cut and fiscal policy will be eased slightly, but we do not expect a cut in the leading interest rates in China.

NBS manufacturing PMI

	January	December
Total	50.5	50.3
-Output	53.6	53.4
-New orders	50.4	49.8
-Export orders	46.9	48.6
-Inventory	48.0	50.6
-Input prices	50.0	47.1

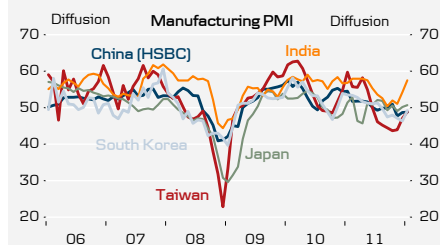
Source: Reuters EcoWin

New orders improved for the second month in a row



Source: EcoWin, Markit and Danske Markets

Manufacturing PMIs improve across Asia

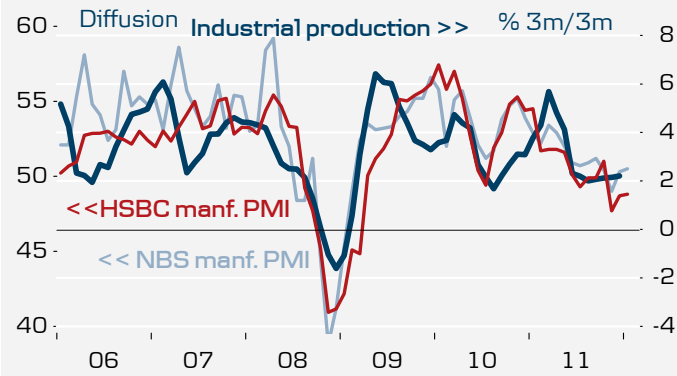


Source: Reuters EcoWin and Markit

Senior Analyst

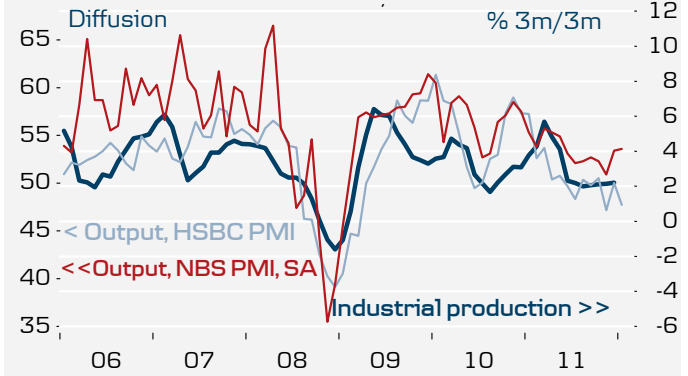
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HSBC PMI improved marginally



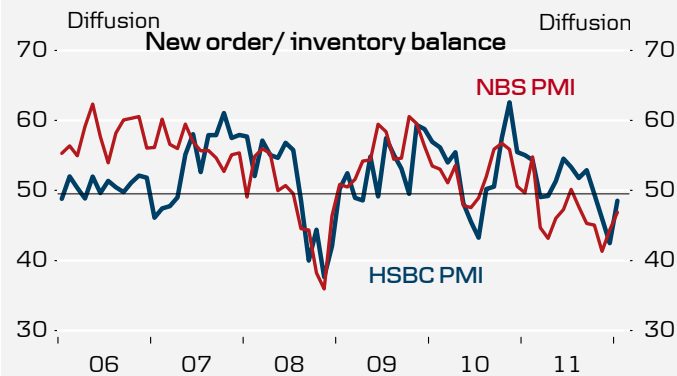
Source: Reuters EcoWin, Markit and Danske Markets

Current output suggests stabilisation in industrial production



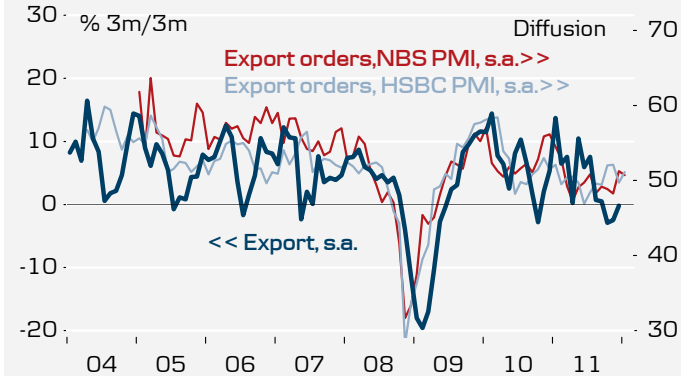
Source: Reuters EcoWin, Markit and Danske Markets

Significant improvement in new order-inventory balance in both manufacturing PMIs



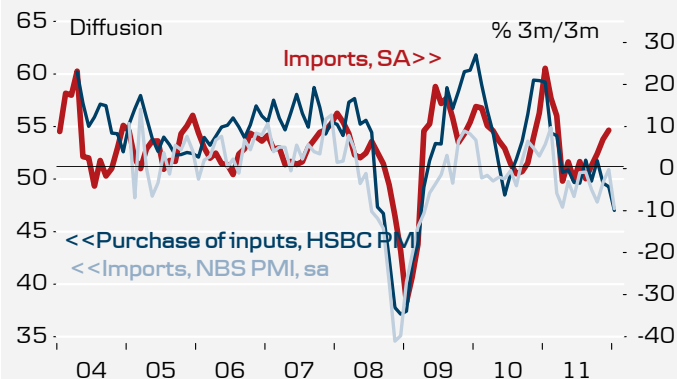
Source: Reuters EcoWin, Markit and Danske Markets

Export orders remain relatively resilient



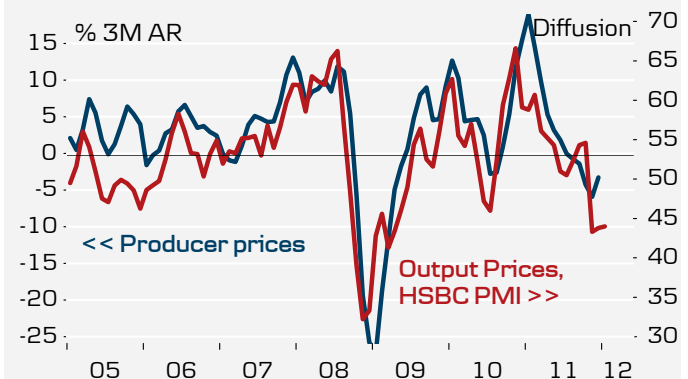
Source: Reuters EcoWin, Markit and Danske Markets

Recent strength in imports does not appear to be sustainable



Source: Reuters EcoWin, Markit and Danske Markets

Price pressure remains subdued



Source: Reuters EcoWin, Markit and Danske Markets

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