

# Flash Comment

## China: PMIs improve and it looks like a soft landing

- Both of China's manufacturing PMIs improved in August, suggesting a soft landing in the Chinese economy rather than a sharp slowdown. Nonetheless, GDP growth will be weak in the current quarter, but should start to improve in Q4.
- Further monetary tightening is still off the table for the rest of the year. However, it looks increasingly likely that existing tightening measures will remain in place and the government will not be forced into new fiscal easing.

### Details

China's two manufacturing PMIs both improved in August, suggesting that China might be able to avoid a sharp slowdown in growth. China's official NBS PMI increased slightly from 51.2 to 51.7 (consensus: 51.5). There is considerable seasonality in the NBS PMI and there was actually a slight decline from 53.0 to 52.6 if we use our own seasonally adjusted data. However, the details are strong with new orders improving and the new order-inventory balance improving markedly (see chart on next page).

The HSBC manufacturing PMI improved significantly in August with new orders in particular surging from 47.9 to 52.7. As the finished goods inventory component dropped substantially, the new order-inventory balance also improved sharply. However, the export order component remained weak in August and thus there remains considerable uncertainty about the outlook for China's exports. The HSBC PMI has in recent months painted a much weaker picture of the Chinese economy than the NBS PMI. However, with the significant improvement in HSBC PMI in August, the two PMIs now paint a more similar picture of the Chinese economy, albeit NBS is still slightly more positive.

In Asia, manufacturing PMIs continued to decline outside China (see chart on next page). This is particularly the case in Japan, South Korea and Taiwan, while manufacturing activity in India appears to be on a more solid footing. As China's manufacturing PMI appears to have led the rest of Asia since late 2008, the improvement in manufacturing PMI in China suggests that PMIs should start to improve in the rest of Asia soon.

### Impact & outlook

Today's Chinese manufacturing PMIs are very encouraging news not just for China, but also for the rest of Asia. They suggest a soft landing rather than a sharp slowdown in growth. Based on the development, we still expect GDP to be just around 7% q/q AR in Q3, which is below trend. However, GDP growth should start to improve again in Q4.

Because inflationary pressure has eased substantially and there is still considerable uncertainty about the global growth outlook, we think further monetary tightening is off the table in China for the rest of the year. On the other hand, today's data also suggests that China will not shift into easing mode. The existing tightening measures will remain in place and the Chinese government will not announce new fiscal stimulus measures.

With growth likely to accelerate again in late 2010, we think monetary tightening will be back on the agenda in 2011, albeit there will be a considerable headwind to the economy next year from the gradual unwinding of public infrastructure investments. The case for continued appreciation of CNY remains in place, albeit it has temporarily stopped due to the uncertainty about the global outlook.

### NBS manufacturing PMI

	August	July
Total	51.7	51.2
-Output	53.1	52.7
-New orders	53.1	50.9
-Export orders	52.2	51.5
-Inventory	51.7	51.2

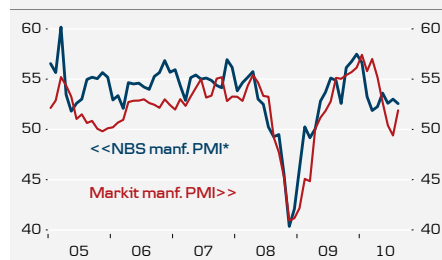
Source: Bloomberg

### HSBC/Markit manufacturing PMI

	August	July
Total	51.9	49.4
- Output	52.4	49.7
-New orders	52.7	47.9
-Export orders	49.5	49.8
-Inventory	49.1	52.2

Source: Markit

### Has inflationary pressure started to ease?

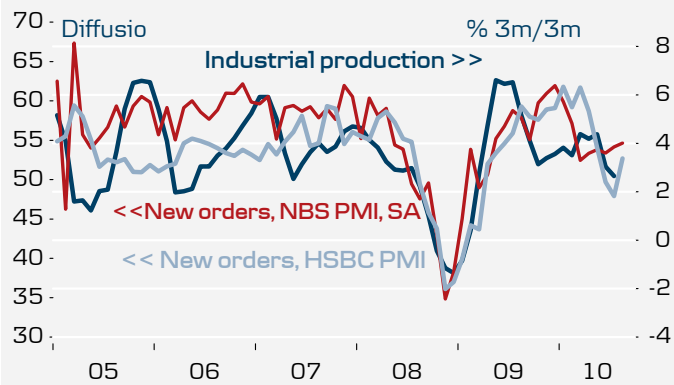


Source: Reuters Ecowin and Markit.

\* Own seasonal adjustment

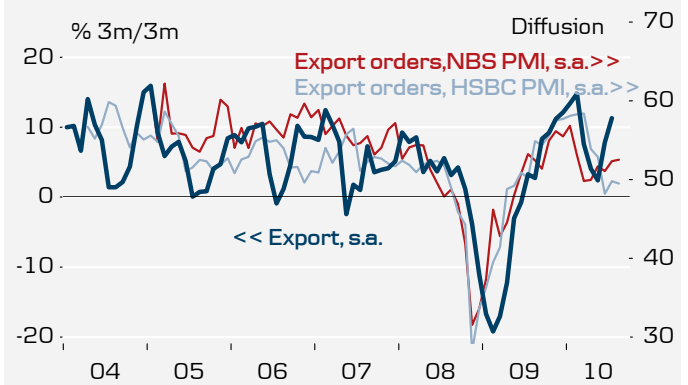
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**Growth in industrial production should improve again in Q4**



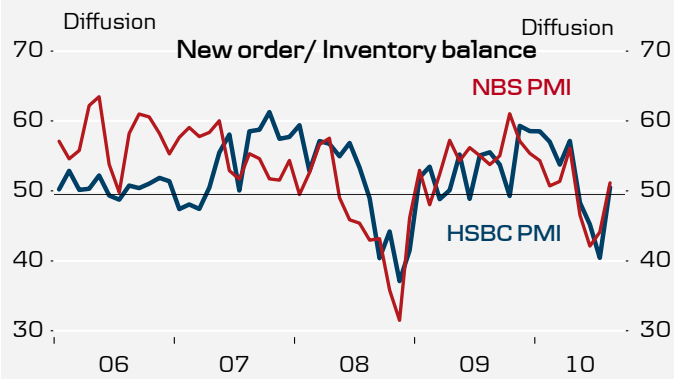
Source: Reuters Ecowin, Markit and Danske Markets

**Expiry of some VAT tax rebates on exports in July has temporarily boosted exports**



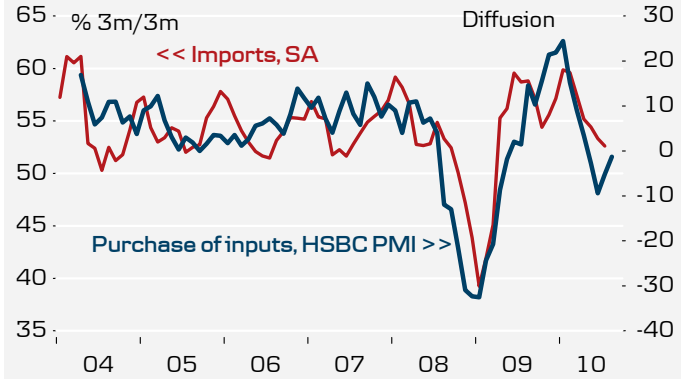
Source: Reuters Ecowin, Markit and Danske Markets

**New order-inventory balance improved sharply in August**



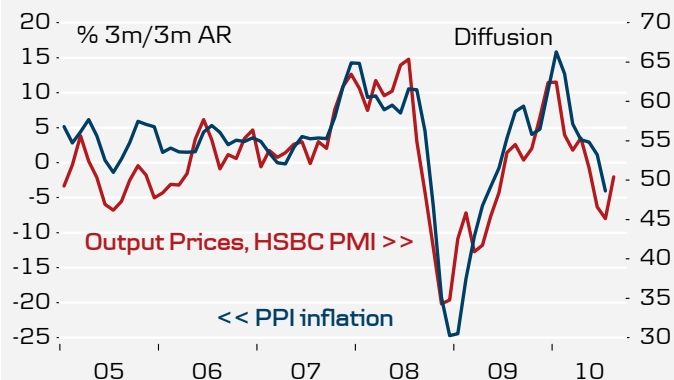
Source: Reuters Ecowin and Danske Markets

**Import growth should start to pick up soon**



Source: Reuters Ecowin, Markit and Danske Markets

**Inflationary pressure has eased significantly**



Source: Reuters Ecowin, Markit and Danske Markets

**Improvement in China's PMI suggests PMIs in the rest of Asia are bottoming out**



Source: Reuters Ecowin, Markit and Danske Markets

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