

Flash Comment

China: Manufacturing PMI only slightly up in June

- Both China's two separate manufacturing PMIs increased by less than expected in June. Overall new orders continue to improve and the new orders/inventory balance remains favourable, suggesting industrial activity will maintain strong momentum in the coming months.
- GDP growth could well be above potential growth in Q2 possibly exceeding 10% q/q AR.

Details

In China, the two separate manufacturing PMIs have both been released for June this morning. Both increased only slightly and by less than we expected. However, the overall picture is that new orders continue to improve with new export orders now above 50 in both surveys. In addition the new order/inventory balance remains favourable in both surveys suggesting industrial activity will maintain strong momentum in the coming months.

As we suspected China's official NBS PMI, compiled by the National Bureau of Statistics, only increased marginally. This is largely due to imperfect seasonal adjustment of the series. As seen in the charts on the next page NBS PMI declined from March to July and hence the flat NBS PMI in recent months probably masks an underlying improvement in NBS PMI. Based on our own seasonal adjustment of NBS PMI there has actually been a significant improvement in NBS PMI, similar to the improvement seen in CLSA PMI.

In line with other indicators both PMIs suggest that the deflationary pressure on finished goods prices is easing. In both surveys, the finished good price component is now close to 50.

Assessment and outlook

Despite the two manufacturing PMIs increasing less than expected, we believe the strong momentum in industrial production has been maintained in June. This view is supported by preliminary data showing a sharp increase in electricity generation in June.

We expect GDP growth to accelerate to about 7.5% y/y in Q2 from 6.1% y/y in the previous quarter. Quarter-on-quarter growth could well be above potential growth in Q2 (possibly exceeding 10% q/q AR).

NBS manufacturing PMI, June

	June	DB	May
Total	53.2	53.5	53.1
-Output	57.1	na	56.9
-New orders	55.5	na	56.2
-Export orders	50.9	na	49.9
-Inventory	45.0	na	46.2

Reuters Ecowin

CLSA/Markit manf. PMI, June

	June	DB	May
Total	51.8	53.0	51.2
-Output	53.7	na	52.5
-New orders	54.6	na	53.4
-Export orders	51.4	na	50.1
-Inventory	50.4	na	47.2

Markit

Industrial production will maintain momentum in coming months



Reuters Ecowin and Danske Markets

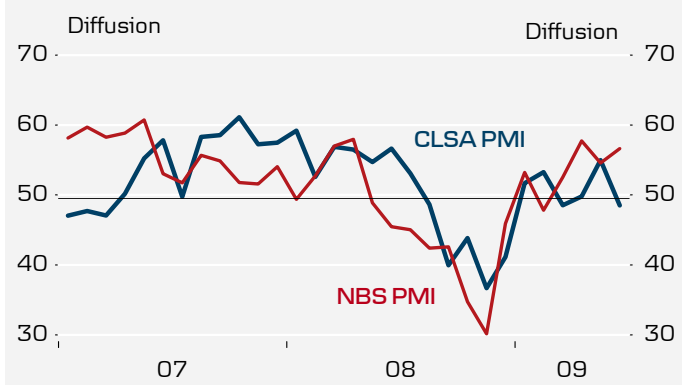
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New export orders now above 50 in both surveys



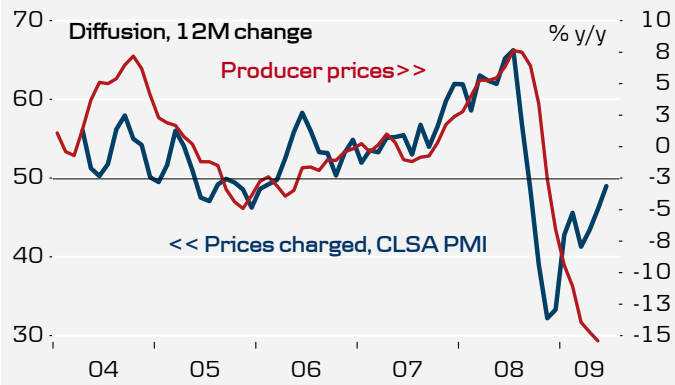
Reuters EcoWin and Markit

New order-inventory balance remains favourable



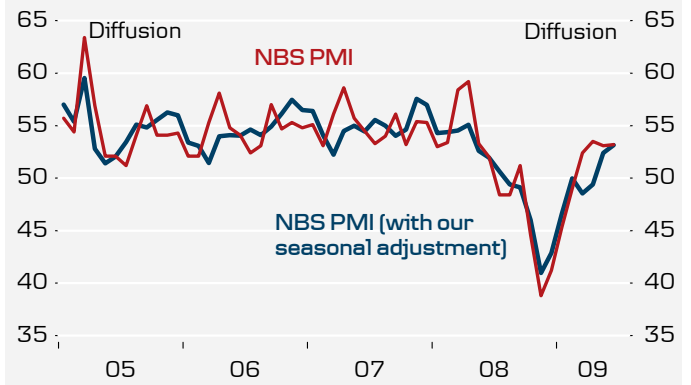
Reuters EcoWin and Markit

Deflationary pressure is easing



Reuters EcoWin and Markit

Seasonal distortions in NBS PMI



Reuters EcoWin and Markit

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