A Chinese manufacturing gauge fell more than analysts estimated in August as a credit slowdown and property slump add to risks the world's second-largest economy will miss its growth target this year.

The preliminary Purchasing Managers' Index (MXAP) from HSBC Holdings Plc and Markit Economics was at 50.3, trailing all 22 estimates in a Bloomberg News survey of economists that had a median projection of 51.5. The measure dropped from July's final reading of 51.7 and, if confirmed on Sept. 1, will be a three-month low. Numbers above 50 indicate expansion.

Stocks in China fell, the Australian dollar dropped and the yuan weakened the most since June. After a slump in credit expansion and slowing growth in investment spending in July, today's report adds to pressure on the government to do more to support expansion that economists project will this year be the weakest since 1990.

"Pressure for more policy easing will mount further and we continue to expect more targeted stimulus measures to be rolled out," Dariusz Kowalczyk, senior economist at Credit Agricole CIB in Hong Kong, said in a note. The bank is sticking to its 2014 forecast of 7.4 percent economic growth "but this will only be possible if Beijing acts quickly to prop up aggregate demand," he said.

The MSCI Asia Pacific Index of stocks was down 0.3 percent at 4:18 p.m. in Tokyo and the Shanghai Composite Index closed 0.4 percent lower after dropping as much as 1.3 percent. The Australian dollar declined to 92.64 U.S. cents.

The yuan extended its drop to 6.1513 per U.S. dollar, the biggest fall since June 16. The Chinese currency declined after the People's Bank of China cut the reference rate to the dollar by 0.08 percent to 6.1632, the weakest level since Aug. 7.

**Output Decline**

The final PMI reading for August is scheduled for release Sept. 1 along with a separate manufacturing index from the National Bureau of Statistics and China Federation of Logistics and Purchasing. That gauge rose to a more than two-year high of 51.7 in July.

Today's report, known as the Flash PMI, is typically based on 85 percent to 90 percent of responses to surveys sent to purchasing managers at more than 420 companies. Estimates of today's number from 22 analysts ranged from 50.6 to 52.0.
A measure of output in today’s survey fell to a three-month low of 51.3 in August, from 52.8 in July. Readings of new orders and export orders increased at a slower pace in August and the decline in employment deepened.

“Today’s data suggest that the economic recovery is still continuing, but its momentum has slowed again,” Qu Hongbin, HSBC’s chief China economist in Hong Kong, said in the PMI statement. “We think more policy support is needed to help consolidate the recovery. Both monetary and fiscal policy should remain accommodative until there is a more sustained rebound in economic activity.”

**Export Growth**

Recoveries in the U.S. and Europe helped accelerate Chinese export growth to 14.5 percent in July from a year earlier, supporting Premier Li Keqiang’s 7.5 percent expansion target for this year. U.S. retail sales stalled in July, suggesting demand may not be strong enough to fuel an export-led acceleration.

China’s gross domestic product will increase 7.4 percent this year, according to the median estimate of 52 economists in a Bloomberg News survey carried out from Aug. 15 to Aug. 20, unchanged from July’s survey.

July’s weaker-than-expected credit, industrial production and fixed-asset investment data spurred speculation the government will add to measures such as expedited fiscal spending and targeted monetary easing to aid growth.

In the credit-fueled real estate sector, new-home prices fell in July in almost all cities that the government tracks as tight mortgage lending deterred buyers even as local governments eased property curbs.

“China’s economic situation in general is improving, but there are still many uncertain factors and the downward pressure is relatively large,” the cabinet said in a statement posted on the government’s website last week.

**Falling Profits**

Shougang Fushan Resources Group Ltd., a coking coal products manufacturer, this month said it expected operating profit to fall 98 percent from a year ago in the first six months. Bank of China Ltd., the nation’s fourth-largest bank, more than doubled the money set aside for bad loans.

Monetary policy will probably tilt toward easing in the second half, according to a joint report produced by the National Development and Reform Commission’s State Information Center, China Development Bank and the Shanghai Securities News that was published in the newspaper yesterday. That may not be a panacea for China’s challenges, Goldman Sachs Group Inc. analyst Li Cui wrote in a note dated Aug. 20.

“Further monetary easing would have incrementally less of an impact and would come at the cost of...
financial stability,” Cui wrote. “A combination of sectoral policies aimed at easing financial stress and structural adjustment would be a better policy option. We do not expect broad macro easing or an interest-rate cut in what remains of this year.”

‘Prudent Policy’

China will keep “reasonable and appropriate” growth in money supply and credit while maintaining a “prudent” monetary policy stance, the State Council reiterated in a statement this month.

“The government is supporting the economy, but compared with 2009 it’s still mini,” said Wang Tao, head of China economic research at UBS AG in Hong Kong, who spoke in a Bloomberg Television interview after the PMI data. “They are trying to protect the bottom line of growth which is around 7.5 percent, so with a lot of difficulty probably will achieve it.”

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