China Manufacturing Gauge Rises to 18-Month High on Stimulus

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A Chinese manufacturing gauge rose to an 18-month high in July, bolstering the government’s chances of meeting its 2014 economic-growth target of about 7.5 percent.

The preliminary Purchasing Managers’ Index from HSBC Holdings Plc and Markit Economics was at 52.0, topping the 51.0 median estimate of analysts in a Bloomberg News survey and June’s final 50.7 reading. Numbers above 50 indicate expansion.

The yuan rose to a three-month high as the report suggested stimulus this year including expedited infrastructure spending is supporting growth. Analysts at banks including Citigroup Inc. and JPMorgan Chase & Co. raised their 2014 expansion forecasts after China said last week that gross domestic product rose 7.5 percent in the second quarter from a year earlier.

“What that quite likely means is that what we have seen in terms of a pretty encouraging recovery in the second quarter will go and continue into the second half of the year,” Grace Ng, senior China economist at JPMorgan in Hong Kong, said on Bloomberg Television. “What we have in the economy right now is both that the external sector and the domestic sector are on a pretty steady recovery trend.”

The benchmark Shanghai Composite Index (SHCOMP) of stocks rose 0.6 percent at 11:11 a.m. local time, while the MSCI Asia Pacific Index was up 0.1 percent, after gaining as much as 0.3 percent. The yuan strengthened to as much as 6.1908 per dollar, the highest level since April 9.

Survey Sample

The 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. The final reading is due Aug. 1. Estimates of today’s number from 21 analysts ranged from 50.5 to 51.5.

A separate manufacturing PMI from the National Bureau of Statistics and China Federation of Logistics and Purchasing will also be published Aug. 1. That gauge rose to 51.0 in June, the highest reading this year, from 50.8 in May.

The statistics bureau said last week that gross domestic product rose 7.5 percent in the April-June period from a year earlier, compared with the 7.4 percent median estimate in a Bloomberg News survey of analysts. June industrial production and first-half fixed-asset investment exceeded projections.
While today’s PMI report is “really strong” and reflects the impact of monetary and fiscal easing since April, policy makers still aren’t satisfied, said Shen Jianguang, chief Asia economist at Mizuho Securities Asia Ltd. in Hong Kong.

**Decisive Steps**

Shen, who formerly worked at the European Central Bank, referred to a government statement yesterday following a State Council meeting, which cited Premier Li Keqiang as saying that “decisive measures should be rolled out” to reduce financing costs.

Policy makers are trying to fuel growth with looser credit and faster spending. **Aggregate financing**, China’s broadest measure of new credit, was the highest for June since the lending spree of 2009, central bank data showed last week. China’s fiscal spending in June rose 26.1 percent from a year ago while fiscal revenue rose 8.8 percent, according to the Ministry of Finance.

Twenty of 25 provinces and provincial-level cities that have reported first-half expansion through yesterday indicated a pickup in the second quarter, suggesting local leaders are sharpening their focus on growth as they amid directives to meet goals including controlling debt and pollution.

**Cumulative Impact**

“The cumulative impact of mini-stimulus measures introduced earlier is still filtering through,” Qu Hongbin, HSBC’s chief China economist in Hong Kong, said in a statement today. “We expect policy makers to maintain their accommodative stance over the next few months to consolidate the recovery.”

The government has limited the support to areas including infrastructure construction and affordable housing. It has maintained nationwide curbs on the property market while some cities have loosened restrictions this year.

Bayerische Motoren Werke AG, the German luxury car and motorcycle maker, said last week it plans to double its China-produced models to six and boost manufacturing capacity in the country to 400,000 vehicles a year from 300,000.

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