A Chinese purchasing managers’ index signaled manufacturing may contract for a third month as a slowing economy boosts the case for the government to further loosen credit controls.

The preliminary January reading of 48.8 for the gauge, released by HSBC Holdings Plc and Markit Economics today, compares with a final 48.7 number for December. The dividing line between contraction and expansion is 50.

International Monetary Fund Managing Director Christine Lagarde joined global officials today in warning that the world economy is decelerating and faces “significant and urgent challenges.” China has allowed its five biggest banks to boost first-quarter lending and may relax capital requirements, people with knowledge of the matter said.

“We expect more policy easing to stabilize growth and the next reserve ratio cut is likely to be delivered in the coming weeks,” said Qu Hongbin and Sun Junwei, Hong Kong-based economists for HSBC. “Demand is likely to remain relatively subdued for the coming months,” which may weigh on output and employment growth, they said.

The data imply growth in industrial output of about 11 percent to 12 percent in the coming months and economic growth of about 8 percent in the first quarter, the analysts estimate.

Asian stocks rose, with a regional benchmark index heading for its fifth straight weekly advance, as fewer Americans than forecast filed claims for jobless benefits and Spain and France sold bonds at lower yields. The MSCI Asia Pacific Index increased 0.9 percent as of 1:22 p.m. in Tokyo.

**Easing Curbs**

Stocks in China rose and are on track to send the benchmark index to its first back-to-back weekly gain in two months. The Shanghai Composite Index (SHCOMP) advanced 0.4 percent at the 11:30 a.m. local-time break, on signs the government is easing lending curbs.

China’s central bank last month reduced banks’ reserve requirements for the first time in three years to encourage lending and Premier Wen Jiabao this month reiterated a pledge to “fine-tune” policies as needed to support growth. Zhan Chunxin, chairman of Zoomlion Heavy Industry Science & Technology Co., China’s second-largest maker of construction equipment, told Wen this month that a lack of access to credit was hurting customers and suppliers.

The nation’s central bank is allowing the five biggest lenders to increase first-quarter credit by a maximum of about 5 percent from a year earlier, said two people at state lenders who have knowledge of the matter. Separately, the banking regulator is weighing a plan to relax capital requirements, according to four people with knowledge of the matter. The agency is delaying implementing the most stringent capital adequacy ratios and may lower risk weightings for loans to small businesses, they said.

**Australia Exports**
Elsewhere in the Asia-Pacific region, a government gauge of Australian export prices dropped 1.5 percent last quarter in a nation where the economy is driven by shipments of iron ore and coal to emerging markets including China. Import prices rose 2.5 percent from the prior quarter.

In Europe, U.K. retail sales including fuel probably rebounded 0.6 percent last month after a 0.4 percent decline in November, the median of 21 estimates in a Bloomberg News survey showed.

German producer prices probably advanced 0.1 percent in December, the same as the prior month’s gain, according to the median estimate of 21 economists in a Bloomberg News survey.

In the U.S., sales of existing homes may have gained 5.2 percent to a 4.65 million annual pace in December after a 4 percent increase in November, according to the median forecasts of 75 economists surveyed by Bloomberg News.

**Preliminary Reading**

In China, the preliminary reading for the manufacturing index, also known as the flash PMI, is based on 85 percent to 90 percent of responses to HSBC and Markit’s monthly survey of purchasing managers at more than 400 companies. It was carried out from Jan. 9 to Jan. 16 and the final reading will be released early next month.

Gauges of output and new orders probably remained below 50 in January, while an index of new export orders expanded after a contraction the previous month, according to today’s statement.

“Manufacturing PMIs around the Chinese New Year get extra weird as factories shut down en masse,” said Stephen Green, Hong Kong-based head of Greater China research at Standard Chartered Bank Plc. “But given Beijing’s shift to policy loosening is happening only gradually, it makes sense that China continues to slow.”

**Migrant Workers**

Economic data in January and February are often distorted by the timing of the nation’s weeklong Lunar New Year holiday when factories shut early to allow migrant workers to travel home. The festival starts on Jan. 23 this year.

The separate official PMI, released by the China Federation of Logistics and Purchasing and National Bureau of Statistics, is based on a survey of managers at more than 820 companies in 20 industries. The gauge showed an expansion in December after a contraction the previous month.

Governments need to stem contagion in Europe and restore confidence in financial institutions to end the sovereign-debt crisis and spur growth, Lagarde and other members of the Global Issues Group of the World Economic Forum said in a Call to Action statement today.

China’s gross domestic product increased 8.9 percent in the last three months of 2011 from a year earlier, the fourth straight quarterly slowdown and the weakest pace in 10 quarters. Growth may drop to below 8 percent this quarter, according to estimates from UBS AG, Nomura Holdings Inc. and Societe Generale SA, as export demand cools further and the government maintains its campaign to rein in housing costs.

Home prices fell last month in 52 of 70 Chinese cities from November, according to government data released Jan. 18. The world’s largest exporter posted the smallest gains in overseas sales and in imports for two years in December from a year earlier, excluding holiday distortions.