China’s Manufacturing Sustained Expansion in January: Economy

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Chinese manufacturing expanded in January, validating the nation’s reluctance to add to policy stimulus amid increasing inflation concern.

The Purchasing Managers’ Index (SHCOMP) was 50.4 in January compared with 50.6 in December, the National Bureau of Statistics and China Federation of Logistics and Purchasing said today in Beijing as they more than tripled the number of companies surveyed. A separate gauge from HSBC Holdings Plc and Markit Economics covering fewer businesses rose to a two-year high of 52.3 from 51.5. Readings above 50 indicate expansion.

Chinese officials have been hesitant to add stimulus beyond accelerated approvals for investment projects and two interest-rate cuts last year, with a measure of input prices in the government-backed gauge rising to a 17-month high. Today’s official report showed export orders contracted, underscoring concern about the strength of global demand.

“China -- and most of the Asian countries except Japan -- is switching to a more-neutral policy stance,” Joy Yang, chief Greater China economist at Mirae Asset Securities (HK) Ltd. in Hong Kong, said in a Bloomberg Television interview. In the second half, “growth momentum is going to lose support from the policy side and we have to rely more on the private sector as well as the global recovery,” she said.

The MSCI Asia Pacific Index of stocks fell 0.3 percent as of 4:05 p.m. in Tokyo, while China’s benchmark Shanghai Composite Index rose 1.4 percent to finish up 5.6 percent for the week, the best weekly performance since October 2011.

Median Estimates

The reading of the government-backed PMI showed a fourth month of expansion and compared with the 51 median estimate in a Bloomberg News survey of 33 analysts. The preliminary reading of HSBC’s gauge released Jan. 24 was 51.9 and the median estimate from 12 analysts for today’s final level was 52.

Premier Wen Jiabao said in comments published this week that inflation can’t be underestimated “at any time.” Consumer-price gains accelerated in December to the fastest pace since May.

The difference between the two gauges today “highlights the need to adjust the official PMI for seasonal patterns,” said Louis Kuijs, chief China economist at Royal Bank of Scotland Plc in Hong
The statistics bureau said the PMI for small companies fell to 46.2 in January from 48.1 in December. The gauge for medium-sized businesses dropped to 49.7 from 49.9 and the level for large enterprises increased to 51.3 from 51.1.

**Survey Sample**

The federation’s PMI is now based on responses from purchasing managers at 3,000 companies in 21 industries, compared with 820 enterprises in 31 groupings previously. The HSBC survey includes executives at more than 400 businesses.

“The official PMI now could better reflect the current state of Chinese manufacturing activity,” Liu Li-Gang, head of Greater China economics in Hong Kong at Australia & New Zealand Banking Group Ltd., said in an e-mail. “After all, the current recovery is still narrowly based, led by a strong pickup in investment, which in turn has spurred a rebound in China’s heavy industry.”

Tighter constraints from resources, the environment and labor supply will challenge the economy this year, Ma Jiantang, head of the National Bureau of Statistics, said Jan. 18.

Chinese industrial companies’ profits rose in December for a fourth month, a statistics bureau report showed this week. Net income increased 17.3 percent from a year earlier to 895 billion yuan ($144 billion), after a 22.8 percent jump in November. Earnings for the full year gained 5.3 percent, down from a 25.4 percent pace in 2011.

**Growth Accelerates**

Gross domestic product increased 7.9 percent in the last three months of 2012 from a year earlier, the first acceleration in eight quarters.

“The moderate dip in the January PMI indicates future economic growth will be stable,” Zhang Liqun, a researcher with the state-run Development Research Center, said in the federation’s statement.

Hitachi Construction Machinery Co. (6305), the world’s biggest maker of giant excavators used in mining, had a loss in the three months through December as Chinese sales slumped and falling coal prices slowed sales to miners in Southeast Asia, a Jan. 30 report showed.

“This is still a narrow-based recovery, driven by infrastructure investment,” said Tao Dong, head of Asia economics excluding Japan at Credit Suisse Group AG in Hong Kong.

Elsewhere in Asia today, South Korea’s PMI fell to 49.9 in January, indicating manufacturing contracted last month, a report from HSBC and Markit Economics showed. The nation’s exports increased the most in 11 months in January, according to government data.

**Inflation Pickup**
Consumer-price gains accelerated in South Korea and Indonesia last month, separate reports showed. Thailand’s inflation slowed in January, giving the central bank scope to cut interest rates further.

In Europe, Markit will release PMI data for nations including France, Germany, Italy, Spain, Poland, Greece and the U.K. Unemployment in the euro area probably rose to a record 11.9 percent in December from 11.8 percent the previous month, according to the median estimate in a Bloomberg News survey.

A U.S. government report will probably show non-farm payrolls climbed by 165,000 workers last month after increasing 155,000 in December, according to the median forecast of economists surveyed by Bloomberg. The unemployment rate may have been unchanged at 7.8 percent.


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