

# China

## PMIs signal marked GDP slowdown, with large and smaller companies affected

- **PMIs signal slower but still robust annual growth of GDP and industrial production.**
- **Manufacturing has led the downturn, but services growth has also slowed.**
- **Larger manufacturers have seen the biggest swings in production and have led the downturn.**
- **In the service sector, smaller firms have suffered most in recent months.**

### PMI signals 9.0% GDP growth

At 52.6, the HSBC China Composite PMI™<sup>1</sup> rose slightly on the 15-month low seen in June, but remained well below levels seen earlier in the year (the index was more than six points lower than the near-record high reached at the beginning of 2010). However, despite the fall from prior highs, the survey is consistent with annual GDP growth of around 9% at the start of 2010 Q3.

### (HSBC) PMI and Gross Domestic Product (GDP)



Sources: Markit, National Bureau of Statistics.

<sup>1</sup> Based on Markit's surveys, this is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

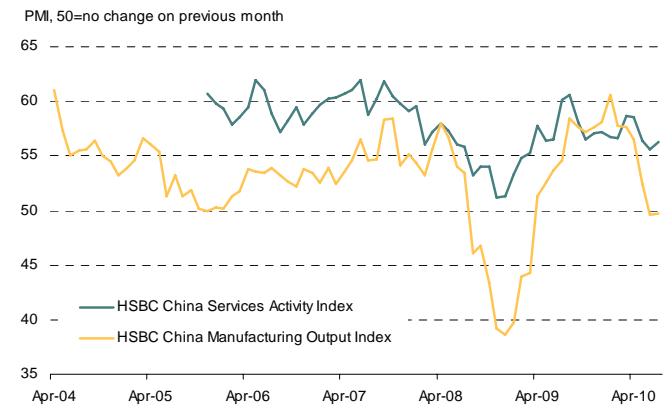
### Manufacturing-led downturn

The slowdown has been clearly led by manufacturing, where production fell marginally for the second month running in July.

The deterioration in the performance of the manufacturing sector reflects declines in both new orders and new export orders. The former includes domestic sales, and showed a steeper rate of decline than export orders in July.

Service sector growth meanwhile remained relatively robust in July, although down on the pace seen earlier in the year and well below the average rate seen prior to the financial crisis.

### Manufacturing & Services

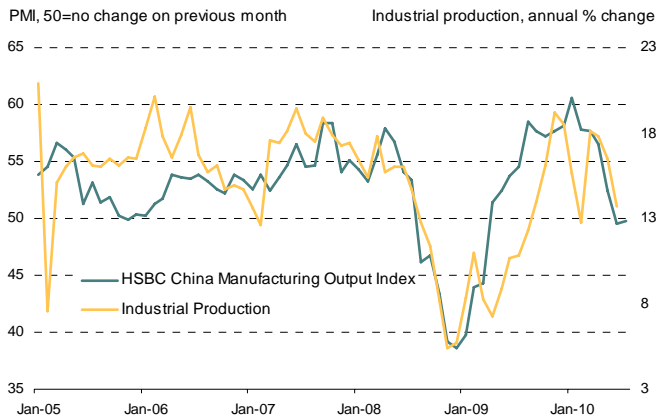


Source: Markit.

### Industrial production has clearly moved down a gear

While the PMI remains consistent with robust, double-digit year-on-year growth of industrial production, the recent falls in output signalled by the survey indicate that the annual rate of growth of industrial production has slowed sharply (from around 20% at the start of the year to 12-13% by mid-year). The PMI is particularly useful in this respect as it provides a much clearer signal of the slowdown than the highly volatile official production data.

### Industrial Production



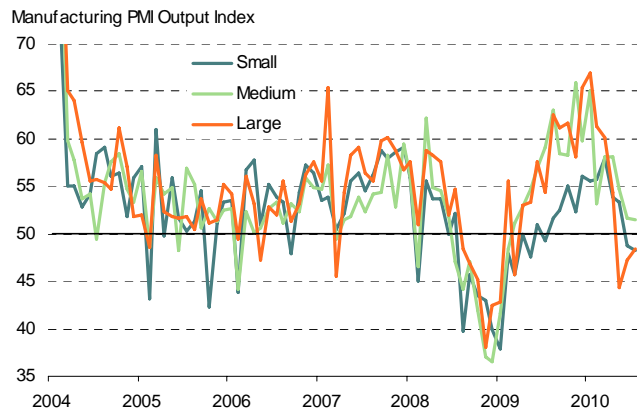
Sources: Markit, National Bureau of Statistics.

### Large manufacturers have seen the biggest swing in output growth

PMI data from the HSBC survey are also available by company size. For manufacturing, these data show that large companies led the manufacturing recovery last year, along with medium sized firms. Both saw output expand at rates not seen since 2004. Smaller producers saw a far more muted and delayed revival by comparison.

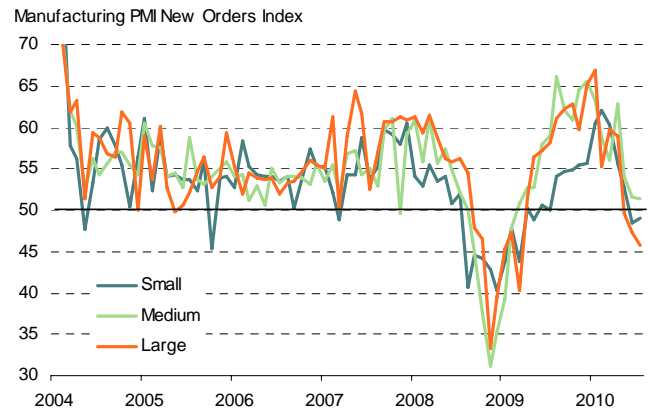
More recently, output in larger companies has fallen over the three months to July, and smaller firms have seen two months of decline. Medium sized firms continue to see rising production, although the rate of growth has slowed sharply. Perhaps most importantly, it is the scale of the turnaround in these indices which has been most crucial in tracking the slowing of the Chinese economy: the manufacturing Output Index for larger firms slumped 23 points from it's post-crisis peak compared to 15- and 10-point falls for medium and smaller companies respectively.

### Manufacturing output

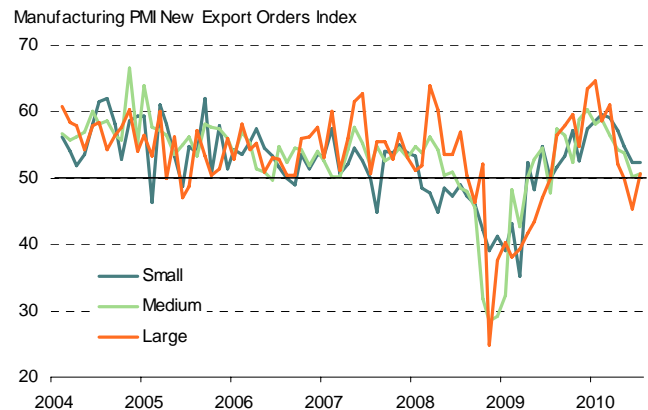


A similar analysis of new orders and new export orders also shows that larger companies have experienced the biggest swings in growth of demand since the financial crisis, although companies of all sizes have seen a substantial deterioration in order book growth.

### Manufacturing new orders



### Manufacturing exports



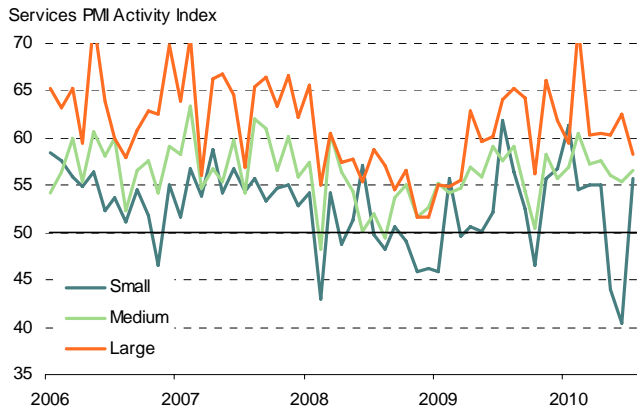
Source: Markit.

### Smaller companies suffer most in services

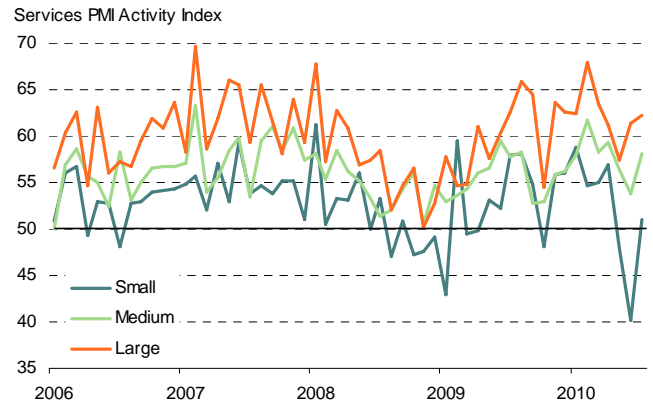
The reverse is true in the service sector, where larger companies have shown more resilience in terms of both activity levels and growth of new business in recent months. Smaller firms even saw activity and new business fall sharply in both May and June, although a bounce-back has been evident in July.

To highlight the divergence, a three-month moving average of the growth of activity at smaller service providers is currently only marginally above the low recorded in January 2009. The three-month average of the Activity Index for larger companies, on the other hand, is only four points lower than the average seen during 2006 and 2007.

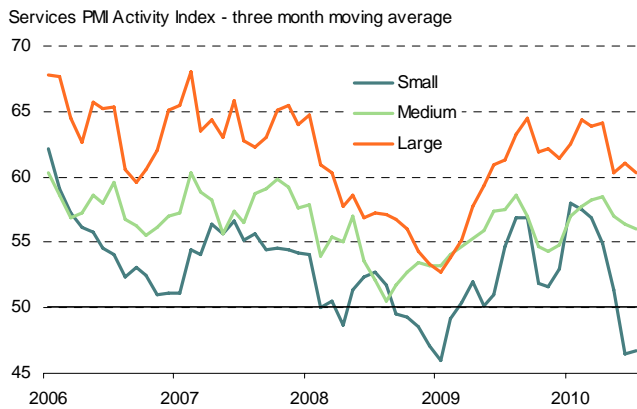
**Services activity**



**Services new business**



Source: Markit.



**Broad-based slowdown**

The broad conclusion therefore appears to be that companies of all sizes have contributed to the slowing in the Chinese economy in recent months, with the only exception being large and, to a lesser extent, medium sized service providers.

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