

## Economics

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# China Macro Flash

## April PMI Eases Growth Concerns

- **PMI rose further, although not as strongly as expected** – PMI crept up by 0.2ppt to 53.3, less than historical average increase for April (0.8ppt) and market expectations. The fifth consecutive monthly increase was mainly driven by production, which increased by 2.0ppts. The improvement in official PMI, along with gains in April HSBC flash PMI reading, suggests sequential QoQ expansion of the economy, but the strength may not be enough to prevent a further mild GDP slowdown on a YoY basis.
- **Accelerating production accompanied by destocking** – Production index rose to 57.2, the highest level since end-2010, indicating industrial production is expanding rapidly. However, both raw material inventory and purchases retreated, weighing on production activity going forward. Finished goods inventory index went down from 50.8 to 49.5 amid ongoing destocking process.
- **New order index pointing to relative weakness of domestic demand** – Despite improvement in export order index which rose to a 1-year high of 52.2, overall new order index dropped by 0.6ppt to 54.5 while import index also declined 1ppt to 50.5. This suggests some uncertainties with regard to domestic demand.
- **SMEs continue to face difficulties** – The PMI index for SMEs fell by 1.8ppts to 49.1, while the index for large enterprises increased by 0.3ppt, confirming that SMEs are hit harder during economic slowdown. This is in line with what HSBC PMI indicates. The HSBC PMI, whose sample covers more SMEs, is expected to show the sixth below-50 reading this month.
- **Continued policy support is needed to generate a 2H rebound** – We continue to think growth may slow down slightly to 7.9% YoY in Q2 from 8.1% in Q1, although seasonally-adjusted QoQ growth may be picking up speed already. To reduce downside risks, we expect the recent policy easing measures to continue, especially those in support of domestic investment demand and SMEs, in order to generate a 2H rebound. An RRR cut is still needed in May to keep monetary policy accommodative.

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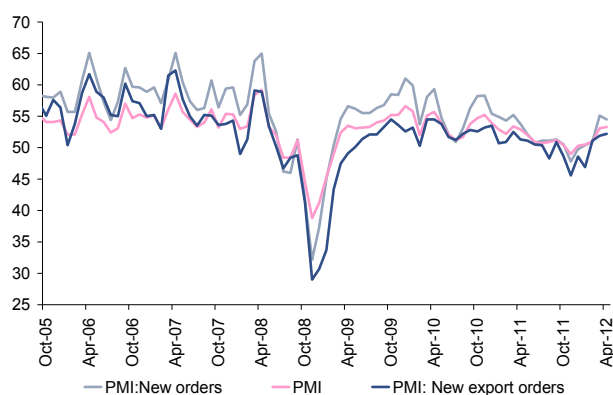
## April PMI Eases Growth Concerns

Figure 1. PMI Breakdown

	12-Apr	12-Mar	12-Feb	12-Jan	11-Dec	11-Nov	11-Oct	11-Sep	11-Aug
<b>PMI</b>	<b>53.3</b>	<b>53.1</b>	<b>51.0</b>	<b>50.5</b>	<b>50.3</b>	<b>49.0</b>	<b>50.4</b>	<b>51.2</b>	<b>50.9</b>
New Orders	54.5	55.1	51.0	50.4	49.8	47.8	50.5	51.3	51.1
Production	57.2	55.2	53.8	53.6	53.4	50.9	52.3	52.7	52.3
Employment	51.0	51.0	49.5	47.1	48.7	49.0	49.7	51.0	50.4
Delivery Time	49.6	48.9	50.3	49.7	50.1	50.4	50.7	49.5	49.9
Inventories Raw Materials	48.5	49.5	48.8	49.7	48.3	46.7	48.5	49.0	48.8
New Export Orders	52.2	51.9	51.1	46.9	48.6	45.6	48.6	50.9	48.3
Inventories Finished Goods	49.5	50.8	50.5	48.0	50.6	53.1	50.3	49.9	48.9
Purchases Quantity	54.4	54.8	53.6	50.2	50.9	49.8	50.7	51.5	51.2
Input Prices	54.8	55.9	54.0	50.0	47.1	44.4	46.2	56.6	57.2

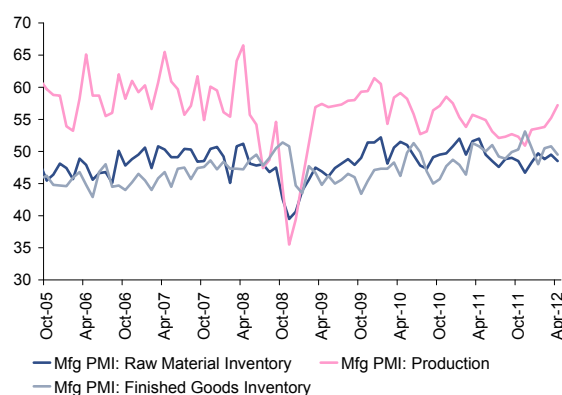
Source: Bloomberg and Citi Investment Research and Analysis

Figure 2. New orders index retreated, pointing to weakening domestic demand relative to external demand



Source: CEIC and Citi Investment Research and Analysis

Figure 3. Production accelerated, along with destocking of raw materials and finished goods



Source: CEIC and Citi Investment Research and Analysis

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