

China Manufacturing Activity At 9-Month Low

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BEIJING (AP) — China's manufacturing activity fell to a nine-month low in August, a survey showed Thursday, stepping up pressure on Beijing for more interest rate cuts and stimulus measures to revive growth in the world's second-largest economy.

HSBC Corp. said a preliminary version of its monthly purchasing managers' index fell to 47.8 from July's 49.3 on a 100-point scale where numbers below 50 indicate a contraction. It said one component, new export orders, fell at its fastest rate in three years.

The report adds to signs China's economic recovery is taking longer and will be weaker than initially forecast due in part to unexpectedly weak demand in key U.S. and European export markets.

"To achieve the stated policy goal of stabilizing growth and the jobs market, Beijing must step up policy easing to lift infrastructure investment in the coming months," said HSBC economist Hongbin Qu in a statement with the report.

The HSBC PMI is based on a survey of 420 manufacturers. HSBC said Wednesday's preliminary index was based on responses from 85 to 90 percent of those companies. The full version is due out Sept. 1.

Beijing has cut rates twice since June 1 and is pumping money into the economy through higher spending on public works construction. But authorities are moving cautiously after China's huge stimulus in response to the 2008 crisis fueled inflation and a wasteful building boom.

Growth fell to a three-year low of 7.6 percent in the quarter ending June 30 and analysts who previously expected a rebound as early as the start of this year have pushed back their timeframe for recovery to the fourth quarter or early 2013.

The slowdown is due in part to government lending and investment curbs imposed in 2010-11 to cool an overheated economy and inflation. Authorities reversed course in late 2011 after a plunge in export demand but have retained controls on construction and home purchases to prevent a surge in housing costs.

Premier Wen Jiabao said last week China should meet its targets this year but warned "economic hardships" may continue for some time.

The Communist Party's growth target this year is 7.5 percent, above the low single-digit levels of the United States, Europe and Japan but painful for Chinese companies that are used to high growth.

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Companies in industries such as retailing and shipbuilding say sales are down as much as 50 percent from a year earlier. Exporters have been hit by the slump in global demand for Chinese goods, which pushed thousands of small producers into bankruptcy.

In August, the HSBC index for new export orders fell to 44.7 from July's 46.7.

"The sluggish external environment will continue to put stress on China's export sector, which would be the main risk factor," said JP Morgan in a report.

Six major Chinese cities have announced multibillion-dollar construction plans as part of efforts to inject money into the economy.

The latest was unveiled Tuesday by Tianjin, a port east of Beijing. It calls for spending 1.5 trillion yuan (\$240 billion) to develop 10 industries including aerospace and petrochemicals.

Analysts expect at least one more interest rate cut this year and other steps to expand lending.

"We believe there is a clear need for and significant likelihood of further loosening measures from the government," said Goldman Sachs economists Yu Song and Yin Zhang in a report.

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