

China

PMI survey, compiled by Markit for CLSA, correctly predicted Q3 growth slowdown and will provide first insight into Q4

Key findings

- **PMI survey anticipated the extent of the surprise Q3 slowdown in China's GDP.**
- **First indication of Q4 GDP is due on 3rd November.**

Q3 slowdown signposted by PMI

China's gross domestic product (GDP) data for the third quarter, published 20 October, surprised the markets by coming in below expectations. The annual rate of growth slipped from 10.1% in Q2 to a five-year low of 9.0% in Q3, falling well short of the consensus forecast of 9.7%.

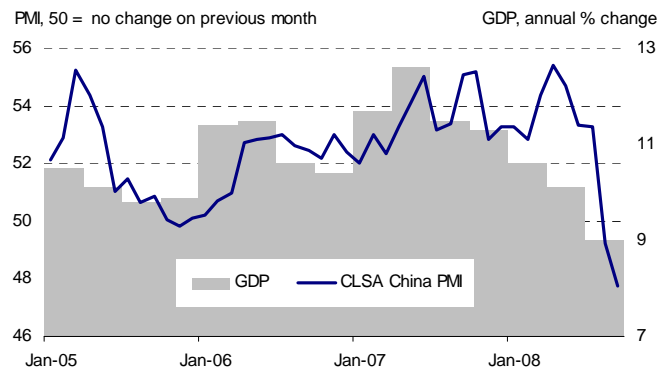
However, the CLSA Purchasing Managers' Index (PMI) for China, compiled by Markit Economics, correctly anticipated the extent of the Q3 growth slowdown. The PMI for September (a composite index derived from measures of manufacturing output, new orders, employment, inventories and supply chain performance), published on 2nd October – some three weeks before the official data, registered its lowest level since the index was first compiled in early-2004, having fallen sharply from April's recent peak.

The PMI began signalling an easing in Chinese growth back in the spring, as domestic demand began to cool. However, **the first indication of a serious downturn in growth was provided on 1st September, when the PMI first fell below the 50.0 no change level.**

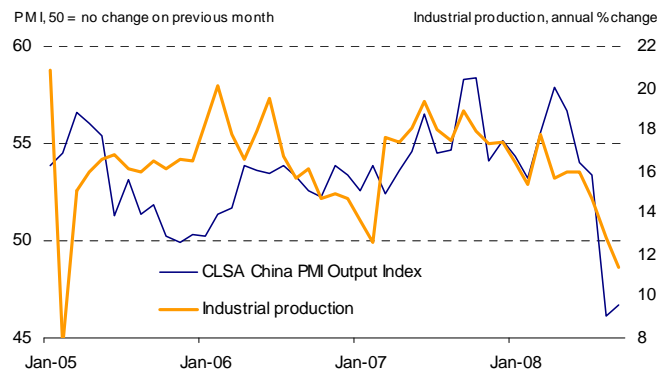
Downturn led by falling foreign demand

The survey's Output Index was also close to a record low in September, staying below the neutral level of 50.0 for the second successive month. Weaker production at some firms was blamed on factory shutdowns around the Olympics and Paralympics, but even after estimating for the impact of such cuts to production, the trend in

China GDP



China industrial production



Sources: Markit Economics, National Bureau of Statistics.

industrial output clearly weakened between the second and third quarters.

Moreover, in a further sign that the slowdown is driven by factors other than a temporary halting of production around the Olympics, the PMI data show that the recent deterioration in the manufacturing sector primarily reflects falling foreign demand, with new export orders received by manufacturers dropping for the second successive month in September. Survey respondents reported that global demand for Chinese-produced goods weakened amid the financial crisis.

Lower demand for Chinese goods caused inventories of unsold goods to show the largest rise yet recorded by the PMI survey in September, and backlogs of uncompleted work fell for the second consecutive month, forcing manufacturers to trim their workforces for the second month in a row.

Importantly, rising inventories of unsold goods suggest that production will remain subdued in coming months as producers seek to reduce these excess stock levels.

PMI will provide first insight into Q4

The first available indicator of economic growth in Q4 will be the PMI data for October, published by Markit and CLSA on Monday 3rd November.

These data will provide an important insight into the extent to which the economy slowed in Q3 as a result of the Olympics, or whether the growth trajectory is indeed substantially weaker than analysts have been expecting.

To find out how to receive data for the China PMI published on 3rd November, or to obtain a copy of the CSLA China Manufacturing PMI report, please contact economics@markit.com.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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