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Manufacturing Expands in China

Sector accounts for more than 40% of the economy in China

Friday, April 03, 2009

By

China's economy is showing signs of recovering, the nation's statistics chief said as government data indicated manufacturing activity expanded in March for the first time in six months. The official Purchasing Managers' Index, or PMI, for China's manufacturing sector rose to 52.4 in March, up from 49 in February, the China Federation of Logistics and Purchasing said in data released late April 2.

It was the first time the official PMI had moved into positive territory since it hit 51.2 in September. It sank to a record low of 38.8 in November. "The PMI not only shows the government economic stimulus package has begun to take obvious effect, but also indicates a stabilizing and warming economy," National Statistics Bureau director Ma Jiantang said.

Ma was referring to a four-trillion-yuan (US\$584.8 billion) stimulus package announced in November last year. He also attributed the lift to incentive programs for rural home appliance purchases and other measures of support for key industries.

The government PMI reading contradicted a reading released on April 1 by independent brokerage CLSA Asia-Pacific Markets, which indicated manufacturing activity had declined, with its index falling to 44.8 in March from 45.1 in February. JP Morgan economist Qian Wang said the different directions shown in the two readings could be due to the larger sample size of the official survey, which covers 700 companies, compared with the CLSA's 400. "We suspect that there could be more state-owned-enterprises and large-sized firms in the NBS sample, which is clearly benefiting more than the private and small-medium enterprises from the government's aggressive fiscal stimulus and commercial banks' credit expansion," Wang said.

Economists echoed Ma's comments, saying the latest PMI figures suggested China's manufacturers may have seen the worst of the economic crisis.

"The Chinese economy may have already hit its rock bottom in the March quarter," Sherman Chan, an economist for Moody's Economy.com said. "Thanks to a power government -- in terms of its financial might and also influence on various sectors of the economy -- the fiscal stimulus package is yielding desired results," she said.

However Goldman Sachs sounded a note of caution. "At least some of the rebound has been based on the expected rise in demand which could be overly optimistic," the investment bank said in a research note. "While we remain optimistic about China's growth trajectory in the coming quarters, there are likely to be fluctuations on the way up."

Manufacturing accounts for more than 40% of the economy in China, which has been hit hard by evaporating demand for its products in key export markets such as the U.S. and Europe.

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