

China's June HSBC flash PMI shows first expansion in 6 months as orders surge
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Activity in China's factory sector expanded in June for the first time in six months as new orders surged, a preliminary HSBC survey showed today, offering new signs the economy is stabilising thanks to Beijing's measures to shore up growth.

The HSBC/Markit Flash China Manufacturing Purchasing Managers' Index rose to 50.8 in June from May's final reading of 49.4, beating a Reuters poll forecast of 49.7 and creeping above the 50-point level that separates growth in activity from contraction.

It was the first time since December that the PMI was in growth territory, and the highest reading since November, when it was also 50.8.

"This month's improvement is consistent with data suggesting that the authorities' mini-stimulus are filtering through to the real economy," said Qu Hongbin, chief economist for China at HSBC, referring to a series of measures announced by the government in recent months to spur activity. "We expect policymakers to continue their current path of accommodative policy stance until the recovery is sustained," he added.

Asian stock markets and the Australian dollar firmed on the news.

The sub-index for new orders, a proxy to measure domestic and foreign demand, rose to 51.8, the fastest pace in 15 months.

The survey showed an across-the-board improvement in the vast factory sector, with most of the 11 sub-indices, ranging from output to new orders and stocks of purchases, accelerating from previous months.

The flash PMI data is the earliest indicator in a month to help gauge the economic momentum and thus is closely watched by investors.

Beijing has unveiled a series of modest policy measures in recent months to give a lift to economic growth, which dipped to a 18-month low in the first quarter.

Such measures include targeted reserve requirement cuts for some banks, quicker fiscal disbursements and hastening construction of railways and public housing projects.

But the recovery has been patchy.

Despite a general pick-up in the manufacturing sector, new export orders grew at a markedly slower pace in June, as recoveries in the United States and the European Union do not appear to be giving their usual robust boost to export-reliant Asian economies.

Moreover, the survey's sub-index for employment pointed to jobs still being shed, though the pace of contraction eased from May.

China has set an annual target for the economy to grow about 7.5% in 2014 and a Reuters poll found that economists expected growth of 7.3% for this year.

Chinese leaders have ruled out the possibility of any big stimulus to pump prim the economy as they tolerate a slower growth rate while pushing ahead with structural reforms.

Premier Li Keqiang said last week that China's economy would not suffer a hard landing and would continue to grow at a medium to high pace in the long term without strong stimulus.

The final Markit/HSBC manufacturing PMI for June is due on July 1. – Reuters, June 23, 2014.

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