China manufacturing slows, spurring growth fears

SHANGHAI: China's manufacturing activity fell to a four-month low in March, HSBC said on Thursday (22 March 2012), adding fuel to concerns over slowing growth in the world's second largest economy.

HSBC's preliminary Purchasing Managers' Index (PMI) fell to 48.1 in March from 49.6 in February, following a sharp slowdown in exports, the British banking giant said in a statement.

A reading above 50 means expansion, while below 50 suggests contraction. The data will add to pressure on policymakers to further loosen monetary policy and comes days after Australian resources giant BHP Billiton said China's demand for iron ore, a key manufacturing component, was flattening.

It is the latest negative news to come from Beijing following a huge trade deficit in February and a government decision this month to set a target of 7.5% growth this year, down from 9.2% last year and 10.4% in 2010.

"Investors are already pessimistic about the economic outlook and the just-released weak PMI data has raised more worries," Shen Jun, a Shanghai-based analyst at BOC International, told AFP.

The result marks the fifth month that the PMI has remained in contraction since reaching 47.7 in November last year. "Growth momentum could slow down further amid a combination of sluggish new export orders and softening domestic demand," HSBC's chief economist for China Qu Hongbin said in the statement.

"This calls for further easing steps." China's central bank in February cut the amount of cash banks must hold in reserve for the second time in three months as policymakers moved to increase lending and boost domestic consumption.

Beijing has pledged to "fine-tune" policy to prevent a hard landing for the economy, which could trigger widespread job losses and spark social unrest.

HSBC, which will later release its final, fixed PMI data for March, also said the manufacturing slump had led firms to cut back, sending employment to its lowest level in three years in March.

The latest PMI data have added to expectations China will further loosen monetary policy by trimming reserve requirements again and even cutting interest rates, analysts said. A near two-year low for inflation in February has given the government room to move as worries over surging prices ease.

"China will come under immense pressure if key economic figures for March confirm that it is experiencing a rapid economic slowdown," Zhang Zhiwei, China chief economist for Nomura, told AFP.

"We expect more easing policies, including cuts in banks' reserve ratio requirements and interest rates," he said, adding an interest rate cut could come soon.

Goldman Sachs is forecasting China will cut interest rates twice this year, though the US investment bank said this would not happen immediately. "While an interest rate cut is not imminent, the need to do it and the likelihood for it to happen has significantly increased recently," it said in a report on Thursday.

Chinese stocks fell after the data was released and the key Shanghai index was down 0.40% in mid-afternoon.

Source: AFP