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\*CHINA JAN. MANUFACTURING PMI AT 50.5

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China's Manufacturing Holds Up Against Global Slowdown: Economy  
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By Bloomberg News

Feb. 1 (Bloomberg) -- Chinese manufacturing indexes rose in January as the world's second-biggest economy withstood weaker exports driven by Europe's debt crisis and a government-induced property slowdown.

The official purchasing managers' index increased to 50.5 from 50.3 in December, exceeding the median estimate in a Bloomberg News survey for a reading below the 50 level that divides expansion from contraction. The data may have been distorted by a weeklong holiday. A separate gauge from HSBC Holdings Plc and Markit Economics rose to 48.8. India's manufacturing grew at the fastest pace in eight months.

Premier Wen Jiabao yesterday reiterated his government will "fine-tune" economic policies as needed after the central bank held off on a reduction in bank-reserve requirements that some analysts had forecast for January. Indexes for export orders, imports and employment in the official PMI showed a deeper decline, underscoring an International Monetary Fund warning last week that the euro area's crisis could trigger another global recession.

"Today's data further confirmed a soft-landing story for China," said Ken Peng, a Beijing-based economist at BNP Paribas SA. "However, consumer demand may weaken after holiday effects disappear," and global "uncertainties" and the Chinese government's efforts to curb property prices "will continue to weigh on exports and industrial production," Peng said.

That will result in a bigger slowdown in China's growth in the coming months, he said.

#### India Manufacturing

A PMI gauge for India rose to 57.5 in January from 54.2 in December, according to HSBC and Markit, an acceleration that may stoke inflation and reduce scope for the central bank to cut interest rates.

The MSCI Asia Pacific Index fell 0.3 percent at 3:46 p.m.

in Tokyo on cuts to profit forecasts for Japanese companies and speculation that China may refrain from immediate monetary loosening.

The Lunar New Year holiday, which ran from Jan. 22 through Jan. 28, helped increase consumer spending and domestic demand, the Beijing-based statistics bureau said in a statement on its website. The festival provided a "temporary boost" to the data, said Yao Wei, a Hong Kong-based economist at Societe Generale SA.

#### Better Than Forecast

The official PMI reading, released by the statistics bureau and logistics federation, compared with a median estimate of

49.6 from 17 analysts. Eleven forecast a contraction.

A gauge of output rose to 53.6, the highest since May.

Readings for new export orders and imports contracted for a fourth month and an index of employment dropped to 47.1, the lowest in almost three years.

The purchasing managers' index released by HSBC was unchanged from the preliminary reading released Jan. 20. While it was the third straight contraction, the gauge rose from 48.7 in December and 47.7 in November.

The federation's index is based on a survey of managers at more than 820 companies in 28 industries, while the HSBC indicator surveys more than 430 companies.

The official PMI report suggests manufacturing "has stabilized somewhat due to supportive fiscal and monetary policies," said Liu Li-Gang, a Hong Kong-based economist at Australia & New Zealand Banking Group Ltd., who accurately predicted today's reading. "Stronger-than-expected PMI also provides solid evidence that a hard landing for China's economy is very unlikely."

#### 'More Accommodative'

Even with today's gain, Chinese officials will lean toward being "more accommodative" in their monetary policy to protect against risks in the property market and a "still uncertain outlook," Liu said.

Another report today said China's home prices fell for a fifth month in January as the government continued to control the property market, the longest losing streak since SouFun Holdings Ltd. started tracking the data.

South Korea's exports unexpectedly fell for the first time in more than two years in January and inflation moderated to the slowest pace in 12 months as Europe's debt crisis dimmed the outlook for demand, reports today showed. Hong Kong's economy grew a less-than-estimated 3 percent in the fourth quarter from a year earlier as Europe's debt crisis damped exports.

#### Australia Home Prices

In Australia, house prices plunged by the most on record in 2011 as global economic uncertainty and concerns about its impact at home kept a lid on demand.

Later today in Europe, reports may show gauges of manufacturing in Germany and France in January held at their preliminary estimates, showing expansion in the former and contraction in the latter, according to separate Bloomberg surveys.

China's economy grew 8.9 percent in the final three months of 2011, the least in 10 quarters, as exports rose at a slower pace and property curbs hurt output of products including steel and cement. Expansion may slide to about 7.5 percent this quarter and 7.6 percent in the three months through June until policies to spur growth kick in, according to Nomura Holdings Inc.

The government has so far refrained from following Asian nations including Thailand in lowering benchmark interest rates and held off in a cut in bank reserve requirements that Industrial Bank Co. and Barclays Capital Asia Ltd. had forecast for January.

#### Adding Cash

Instead, the People's Bank of China has added cash to the financial system through reverse-repurchase operations. The money-market rate in January had its biggest monthly drop since July after the central bank added the most funds in almost four years.

The banking regulator asked the country's five largest banks to conduct stress tests on lending to local government financing vehicles and on property loans, the 21st Century Business Herald reported today.

The IMF last week cut its 2012 growth forecast for the nation to 8.2 percent from an earlier estimate of 9 percent. Rio Tinto Group, the world's third-largest mining company, and Anglo American Plc said last week China's growth will remain resilient to a contraction in Europe, underpinning a long-term expansion in demand for raw materials.

Today's government report was "broadly positive," said Dong Tao, a Hong Kong-based economist at Credit Suisse AG. Even so, "export orders surprised on the weak side." The data indicate China's economy is expanding at a 7 percent to 9 percent pace with a "declining risk" of a so-called hard landing, he said.

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