

To ISM-PRD Members, Honorable Advisors and global ISM fellows,

European debt crisis seems endlessly affect all the countries around the world. Every leader try to alleviate the problem by means of printing unlimited notes, however, the situation remains unchanged.

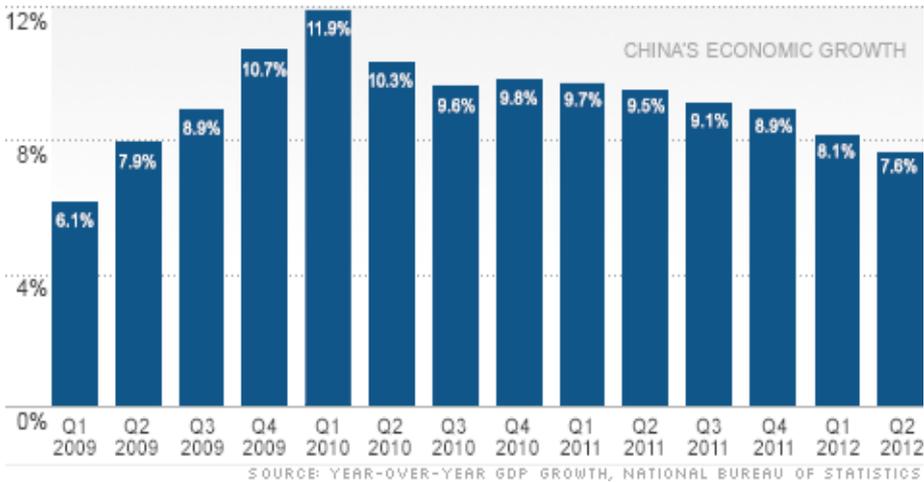
As seen from the statistical data shown below, the economy is not as optimistic as we expect. GDP of China only grows at 7.6% in Q2 2012, which could not be maintained above 8% as previous quarters (i.e. Q3 2009 to Q1 2012).

Both Consumer Confidence Index and Consumer Satisfaction Index are slightly dropped. China's Consumer Price Index reaches lowest level in 2012, only grows at 1.8%. And China's manufacturing PMI is getting worse, only 50.1%. As there is no symptom for the improvement of economy, entrepreneur has no intention to make any further investment at this moment. This is compatible with the decreasing trend for both Business Climate Index and Entrepreneurs Confidence Index.

All people right now are waiting for the next measures, QE3. This would probably boost the stock market and may also serve to create asset bubbles. The flow of hot money and the low interest rate environment causes more people to invest money on real property. Hope all leaders can think of more effective and efficient measures to stimulate the economy in the future.

CHINA'S ECONOMY SLOWDOWN

GROSS DOMESTIC PRODUCT

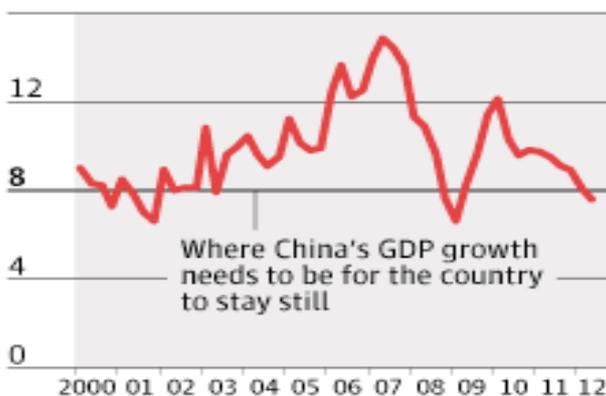


Compared to a year earlier, China's economy grew 7.6% in the second quarter, marking a deceleration from an 8.1% growth rate in the prior quarter and the slowest growth since early 2009.

The slowdown is due to a variety of factors, including real estate and inflation control, weaker demand from Europe and US, etc.

China's growth slowing down

GDP, year on year change, %



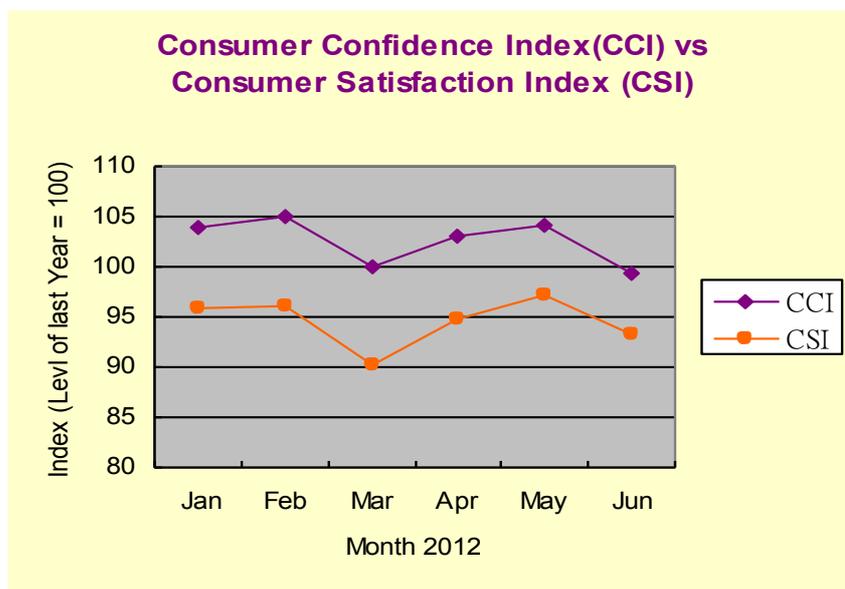
SOURCE: THE WALL STREET JOURNAL

Source: <http://www.worldbank.org/en/news/2012/04/12/china-quarterly-update-april-2012>

ECONOMIC OUTLOOK

- ◆ Cyclical weakness is expected to dominate the near-term outlook, with growth projected at 8.2 percent in 2012 and 8.6 percent in 2013.
- ◆ China's current account surplus is projected to increase slightly to 3 percent in 2012 and 3.3 percent in 2013, with foreign reserve accumulation expected to moderate.

CONSUMER CONFIDENCE SLIGHTLY DROPPED



According to the report released by ACNielsen, China's consumer confidence in the second quarter dropped from the first quarter but was still higher than the global average.

Chinese consumer confidence has been affected by the European debt crisis, the country's economic growth slowdown and export reductions.

Source: <http://www.nielsen.com/us/en/insights/reports-downloads/2012.html>

CPI HIT ITS LOWEST LEVEL IN 30 MONTHS

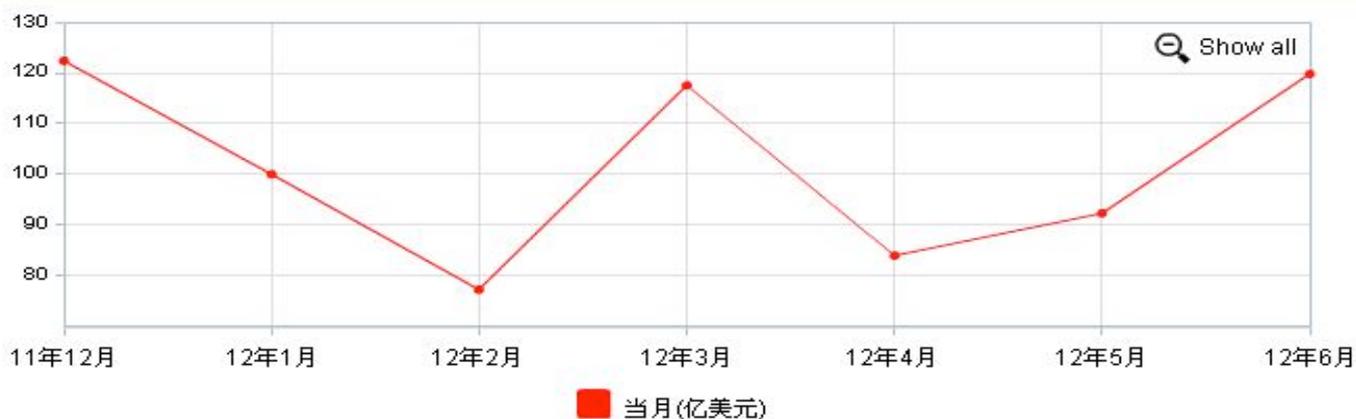


- China's Consumer Price Index (CPI) growth slows to 1.8% in July, the slowest pace since February 2010.
- Food prices, which account for nearly one-third of the prices used to calculate China's CPI, edged up 2.4 percent in July from a year ago
- The Producer Price Index (PPI), a main gauge of inflation at the wholesale level, fell 2.9 percent in July from a year earlier.

Source: http://news.xinhuanet.com/english/china/2012-08/09/c_131772289.htm

FDI BOUNCED FROM THE BOTTOM

> 中国 外商直接投资数据 (FDI)



Source: http://www.chinadaily.com.cn/bizchina/2012-07/17/content_15589115.htm

- The FDI China attracted in June stood at \$12 billion, down 6.9 percent from a year earlier. Despite lower than previous year, FDI in the 2nd quarter is climbing upward from the through in the 1st quarter.
- From January to May, investment from the EU declined 5.1 percent, according to the MOC data.
- Data showed that in the first six months, FDI into the property sector dropped 12.4 percent from a year earlier, a much heavier decline compared to other sectors.

INVESTMENT IN FIXED ASSETS FLUCTATED

> 中国 城镇固定资产投资



China's urban fixed asset investment rose 20.4% year-on-year to 15.07 trillion yuan in the first half of 2012.

The growth rate moderated by 0.5% point compared to that in the first quarter, and was down 5.2% points from the same period last year.

TREND OF URBAN FIXED-ASSET INVESTMENTS



Chinadaily.com.cn

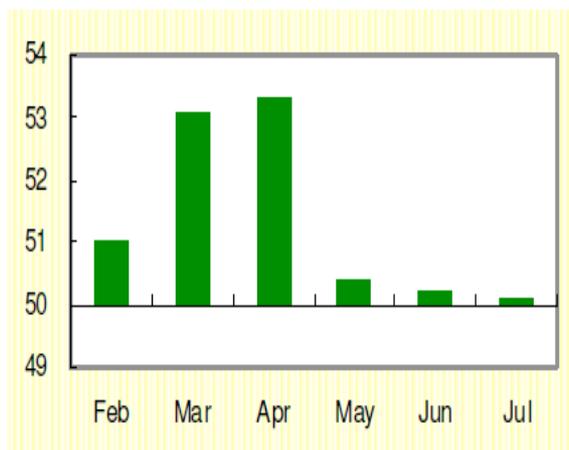
Source: National Bureau of Statistics of China

During the first half, investment in the primary industry amounted to 365.4 billion yuan, up 28.6 percent; that in the secondary industry totaled 6.78 trillion yuan, up 23.7 percent; investment in the tertiary industry rose 17.4 percent to hit 7.93 trillion yuan.

PMI EDGED DOWN TO 50.1% IN JULY

China Manufacturing PMI, seasonally adjusted

| 2012 | PMI |
|------|------|
| Feb | 51.0 |
| Mar | 53.1 |
| Apr | 53.3 |
| May | 50.4 |
| Jun | 50.2 |
| Jul | 50.1 |



China's manufacturing PMI edged down from 50.2% in June to 50.1% in July, decreasing for three consecutive months.

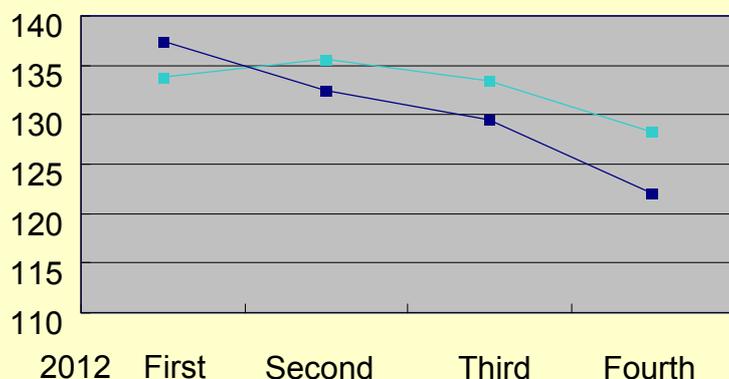
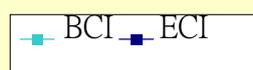
The July reading was only marginally above the critical 50-mark, indicating the weak growth momentum of China's manufacturing sector.

In July, 11 of the 21 industries recorded PMIs below 50%.

Source: http://www.funggroup.com/eng/knowledge/research/PMI_august12.pdf

BUSINESS CLIMATE NOT PROMISING

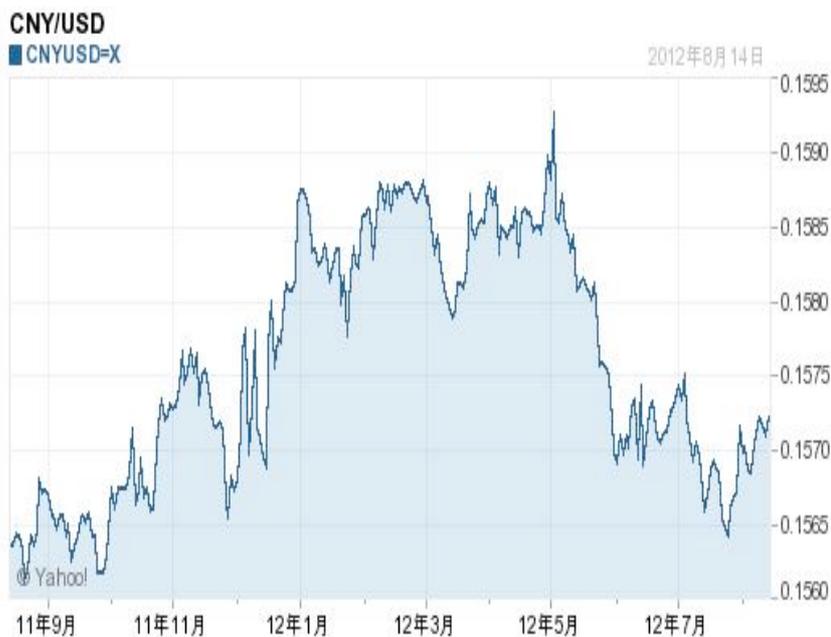
Business Climate Index vs Entrepreneurs Confidence Index



The business climate index (BCI) was 126.9 in the second quarter, dropped 0.4 points quarter-on-quarter, the decreasing amplitude narrowed gradually.

The entrepreneur confidence index (ECI) reached 121.2 in the second quarter of 2012, decreased 1.8 points over the previous quarter.

CNY TO USD EXCHANGE RATE DROPS



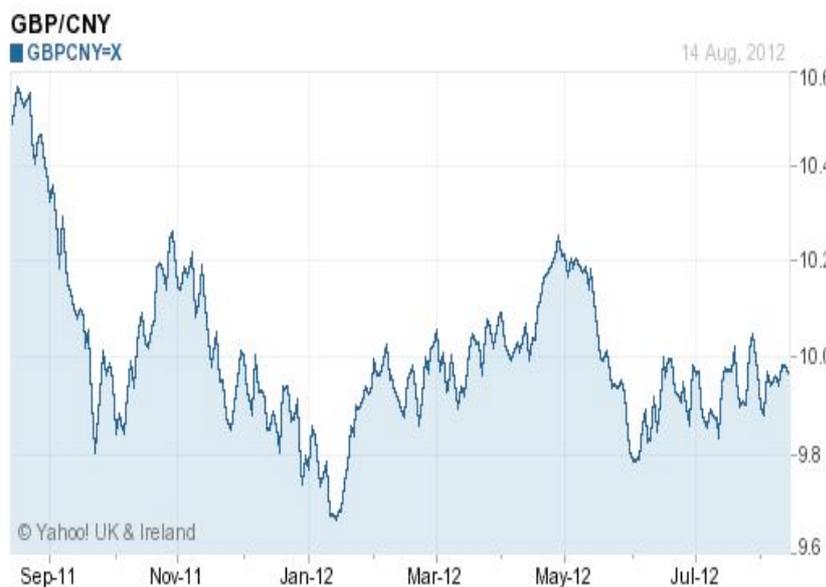
Following the high level kept in the first quarter of 2012, there is a sharp decrease in May. The exchange rate afterwards in the second quarter fluctuates around the level of 0.157.

The trend of CNY/USD exchange rate is in alignment with the trend of China Manufacturing PMI. This can be possibly explained by the recessed manufacturing sector as well as the trade volume.

GBP /CNY

The exchange rate of GBP to CNY rebounded from the lowest level in Jan 2012. In the recent quarter, the exchange rate fluctuates at the level around 10.

There is a slight surge of the exchange rate in May, which may have relation with the approaching Olympics in July.



Source: <http://uk.finance.yahoo.com/q/bc?s=GBPCNY=X&t=1y&l=on&z=m&q=l&c=>

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Disclaimer: Should there be any different views in the interpretation, please always refer to the original media source as reference. Institute for Supply Management – PRD accepts no liability in respect of the accuracy and truthfulness of the materials included in this article.

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