

# CHINA BUSINESS NEWS FLASH -- 2<sup>nd</sup> Quarter, 2013

**To ISM-PRD Members, Honorable Advisors and global ISM Fellows,**

As eagerly awaited as the first sight of Kim Kardashian's baby, China's second quarter economic data have arrived. China's gross domestic product growth slowed to 7.5% year-on-year in the second quarter, down from 7.7% in the first. That puts the economy on track to hit the government's 7.5% target for the year, a result that would still be down from 7.8% in 2012, and the lowest growth since 1990.

Growth in bank loans, electricity consumption and rail freight – the three measures Premier Li Keqiang said he preferred to GDP – diverged. Growth in bank loans stayed strong while the other two showed downward trend.

Following a huge fluctuation in Q1, Consumer Price Index (CPI) in China climbed above the second quarter and reached 102.70 Index Points in June of 2013, indicating that inflation have not peaked yet.

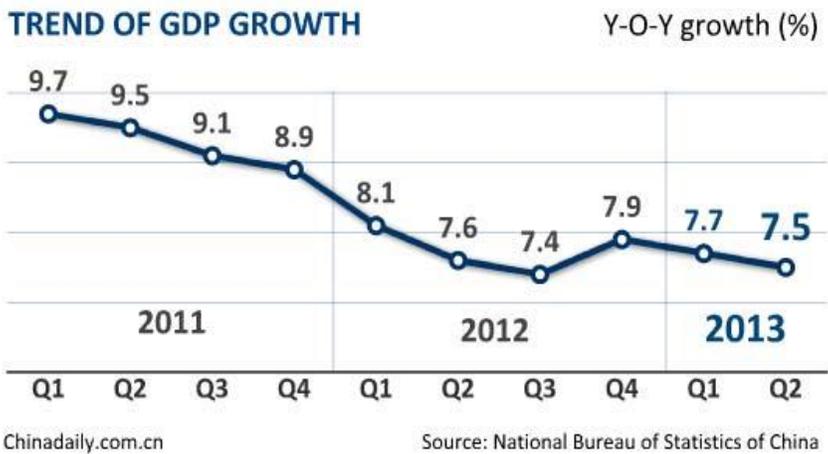
China's foreign direct investment (FDI) surged in June, soaring 20.12 percent from a year earlier to \$14.39 billion, which also marked the fifth consecutive monthly increase since February.

China's manufacturing PMI fell from 50.9 in March to 50.1 in June, the lowest in four months.

The Yuan continued to gain ground against the dollar in April and May, driven partly by capital inflows and partly by politics ahead of U.S.-China summit meetings.

Overall, the economic outlook seems to show a mixed story, better-than-expected data proved that China is performing relatively well above other prominent players while pessimists got hold of more data to support their views.

## China's Q2 GDP growth slows to 7.5%



China's gross domestic product growth slowed to 7.5 percent in the second quarter of 2013, down from 7.7 percent during the first quarter, data from the National Bureau of Statistics (NBS) showed.

Growth in the first half of the year stood at 7.6 percent, which is in line with market expectations and was above the government's full-year target of 7.5 percent.

According to the NBS data, the GDP totaled 24.8 trillion Yuan (\$4 trillion) in the first six months.

## China's fixed-asset investment up 20.1 percent in the first half year

China's urban fixed-asset investment grew 20.1 percent year on year to 18.13 trillion Yuan (2.94 trillion U.S. dollars) in the first half of 2013, down 0.8 percentage point over the first quarter of the year, the National Bureau of Statistics announced on Monday.

## China's exports down 3.1 percent in June

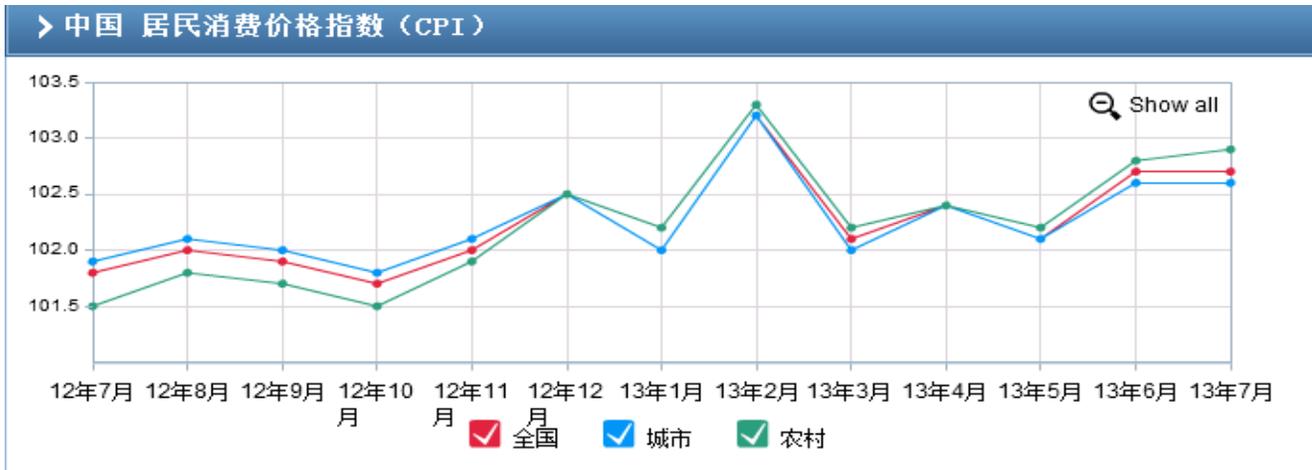
China's exports took a surprising tumble in June, putting pressure on growth of the world's second-largest economy.

## China's inflation grows 2.7% in June

China's consumer price index (**CPI**), a main gauge of inflation, grew 2.7 percent year on year in June, up from 2.1 percent in May, the National Bureau of Statistics said Tuesday.

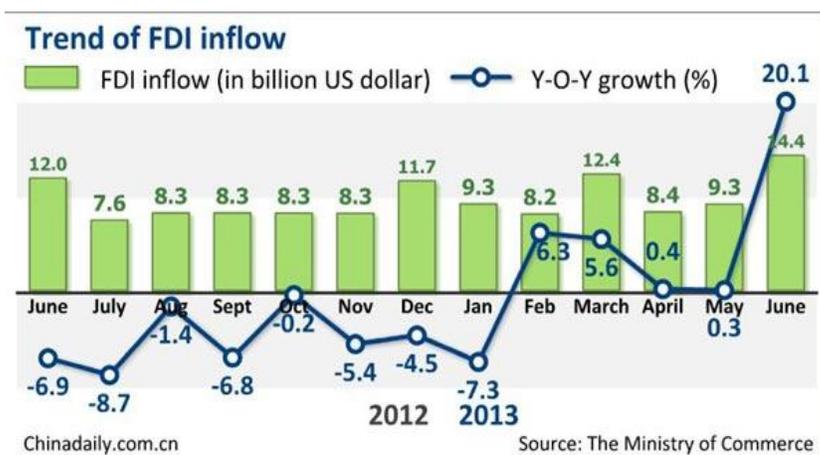
*Source: National Bureau of Statistics of China*

## China's CPI climbed up by 0.7 over Q2



Consumer Price Index (CPI) in China increased to 102.70 Index Points in June of 2013 from 102.10 Index Points in May of 2013. Consumer Price Index (CPI) in China is reported by the National Bureau of Statistics, China. China Consumer Price Index (CPI) averaged 105.84 Index Points from 1986 until 2013, reaching an all-time high of 128.40 Index Points in February of 1989 and a record low of 97.80 Index Points in April of 1999. In China, the Consumer Price Index or CPI measures changes in the prices paid by consumers for a basket of goods and services.

## China's FDI surges in June



China's foreign direct investment (FDI) jumped surprisingly in June, soaring 20.12 percent from a year earlier to \$14.39 billion.

The surprise June FDI data did not include overseas fund influxes in banking, securities and insurance sectors but still marked a significant upsurge from a 0.29-percent year-on-year increase seen in May, according to the Ministry of Commerce (MOC).

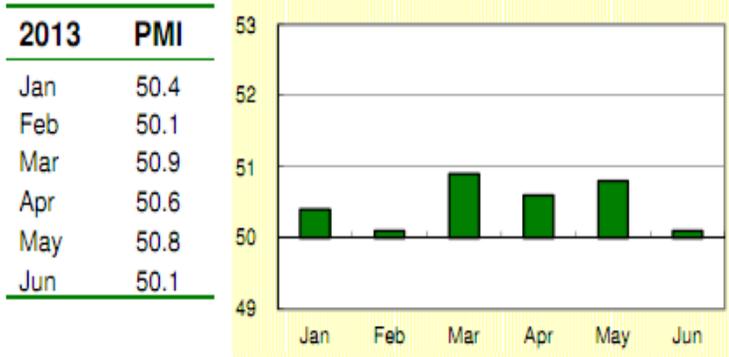
The figure marked the fifth consecutive monthly increase since February, when China reported an FDI recovery after seeing monthly declines since June 2012.

In the first half of 2013, China's FDI totaled \$61.98 billion, up 4.9 percent year on year.

During the first six months, China approved the establishment of 10,630 foreign-invested enterprises, down 9.18 percent from a year earlier.

## PMI fell to 50.1 in June

### China Manufacturing PMI, seasonally adjusted

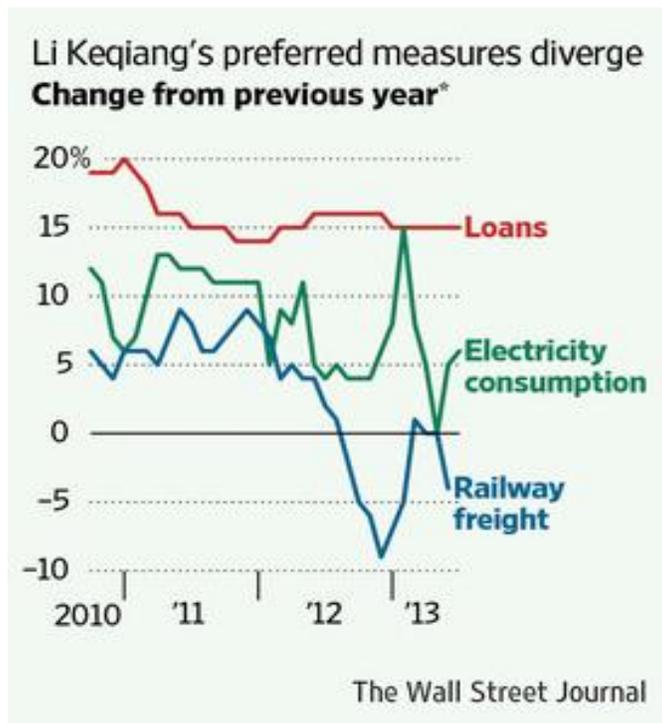


Source: Fung Business Intelligence Centre

China's manufacturing PMI fell from 50.8 in May to 50.1 in June, the lowest in four months. The June reading indicates growth moderation in China's manufacturing sector, which could be attributed to the recent liquidity squeeze in China.

All sub-indices were lower than their respective levels in the previous month. The fall in the PMI in June was due largely to the decelerating growth of output and new orders. In June, the output index dropped by 1.3 points, while the new orders index fell by 1.4 points. Meanwhile, the new export orders index declined by 1.7 points from the previous month to a four-month low of 47.7 in June, indicating sluggish export demand. The only good news is that the input prices index stayed low at 44.6 in June.

## Li Keqiang's three preferred measures diverge



Growth in bank loans, electricity consumption and rail freight – the three measures Premier Li Keqiang said he preferred to GDP – diverged. New loans stayed strong while electricity and rail freight remained weak – reflecting a division in the wider economy between runaway credit growth and lackluster improvements in output.

## Exports Shrink, Denting Yuan Outlook



China's domestic consumers might have turned cautious, but they were still doing considerably better than their counterparts in Europe and the U.S. Sluggish demand in major trade partners saw China's exports slumping to a 3.1% year-on-year contraction in June, the first instance of shrinking sales in a non-holiday month since November 2009.

That reflects rising wages and a stronger Yuan, which have dented China's competitiveness relative to low-cost rivals like Vietnam. A crackdown on illegal use of the trade account to bring hot money into the country also had an impact, taking export growth down from 15% year-on-year in April – before the crackdown – to a contraction in June.

The Yuan continued to gain ground against the dollar in April and May, driven partly by capital inflows and partly by politics ahead of U.S.-China summit meetings

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