# China April official factory activity expands but at slower pace

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Workers stand on a steel frame which they are welding for an advertising board in Jiaxing, Zhejiang province, March 24, 2012.
Reuters/Stringer/File

BEIJING - Activity in China's manufacturing sector expanded for the second month in a row in April but only marginally, an official survey showed on Sunday, raising doubts about the sustainability of a recent pick-up in the world's second-largest economy.

The official Purchasing Managers' Index (PMI) was 50.1 in April, easing from March's 50.2 and barely above the 50-point mark that separates expansion in activity from contraction.

Analysts polled by Reuters had predicted the reading would improve to 50.4, after upbeat March data fueled hopes that the country's prolonged economic slowdown was easing.

The findings were "a little bit disappointing", Zhou Hao, senior emerging market economist at Commerzbank in Singapore, wrote in a note.

"To some extent, this hints that recent China enthusiasm has been a bit overpriced and the data improvement in March is short-lived."

While production expanded modestly (52.2) and at nearly the same pace as in March, growth in domestic and export orders faded slightly, though remaining in positive territory.

In a sign of caution over the outlook, factories continued to draw down heavily on inventories of finished goods.

Factories also appeared to be stockpiling less raw materials, possibly due to recent skyrocketing price increases for products such as steel, which have been linked in part to a recovery in the property market.

Indeed, South Korea reported April demand from China was the worst in three months, with exports to its biggest market tumbling 18.4 percent on-year.

And China's factories continued to shed workers, with staff cuts quickening from the previous month. The official PMI survey, which tends to focus on larger, state firms, has shown persistent declines in employment for the last 3-1/2 years.

FALSE HOPE?

March data had spurred hopes that the long suffering manufacturing sector was bottoming out, with growth in industrial output and profits improving.

That in turn had led economists to wonder if the government and central bank would begin to take a less aggressive policy approach after a more than one-year long blitz of fiscal, monetary and administrative stimulus measures.

To be sure, the property recovery appears to have spurred demand for building materials from cement and glass to steel, and a recent rebound in commodity prices is bringing in more cashflow for some companies to service their mountains of debt.

However, home sales are now tumbling in some big cities such as Shanghai as authorities try to curb rapid price rises, and sizzling steel and iron ore markets cooled last week after China's securities regulator ordered commodity futures exchanges to control speculative trading.

Analysts also worry that recent signs of improvement may be largely driven by companies and local governments taking on more debt, putting the chances of a stable recovery at risk.

China's Big Five banks reported last week that their bad loans had increased by 53.2 billion yuan ($8.21 billion) in the first quarter.

Activity in China's services industry, meanwhile, remained strong but grew at a slightly slower pace, with the official reading at 53.5 in April, compared with 53.8 in March.

Beijing is banking on a stronger services sector to help offset the long slump in "old economy" sectors such as heavy industry and to provide jobs for laid-off factory workers.

(Reporting by Jessica Macy Yu and Sue-Lin Wong; Additional reporting by Jenny Su; Editing by Kim Coghill)