

China Manufacturing Contraction May Speed Stimulus

China's manufacturing may shrink for a seventh month in May, a private survey showed, reinforcing the need for stimulus as Premier Wen Jiabao accelerates a shift in policy to support growth. The 48.7 preliminary reading for a purchasing managers' index released by HSBC Holdings Plc and Markit Economics today compares with a final 49.3 for April. If confirmed on June 1, it would mark the longest run of below-50 readings since the global financial crisis. Today's report, along with worse-than-forecast data from Japan and Taiwan yesterday, add to concerns that growth in Asia is in danger as the world grapples with the threat of Greece's exit from the euro. China will increase the intensity of policy "fine-tuning" amid rising "downside risks" facing the economy, the State Council, or Cabinet, said yesterday. "This calls for more aggressive policy easing, as inflation continues to slow," Qu Hongbin, Hong Kong-based chief China economist for HSBC, said in a statement. "Beijing policy makers have been and will step up easing efforts to stabilize growth, as indicated by a slew of measures to boost liquidity, public housing and infrastructure investment and consumption." The benchmark Shanghai Composite Index of stocks reversed gains, declining 0.5 percent as of 3:01 p.m. local time. The yuan weakened against the dollar for a second day, dropping 0.1 percent to 6.3403.

The manufacturing index stayed below 50 for eight months through March 2009. The new orders, export orders and employment components of the gauge all showed a contraction for May, while output expanded, according to the preliminary readings. 'Proactively' Expand Demand

The government "must proactively take policies and measures to expand demand and to create a favorable policy environment for stable and relatively fast economic growth," according to a statement on its website yesterday summarizing a meeting of the State Council. Leaders pledged to maintain a "prudent" monetary policy while also increasing the degree of "fine-tuning" as the Economy faces "increasing pressure of a downward movement," according to the statement. The comments build on Wen's remarks published May 20 that policy makers should "put stabilizing growth in a more important position." The State Council meeting "confirms stimulus will come," Zhang Zhiwei, Hong Kong-based chief China economist at Nomura Holdings Inc., said in a note yesterday. Implementation of policies will happen in June and will "secure growth" in the second half of the year, he said.

Deteriorating Growth China's economic growth will probably deteriorate this quarter and the odds are increasing that interest rates will be cut for the first time in more than three years, an Asian Development Bank senior economist said. Expansion may "approach" 7.5 percent in the three months through June from a year earlier, following the first quarter's 8.1 percent, Zhuang Jian said in an interview in Beijing yesterday. China's banks can borrow from one another at the lowest interest rates in 13 months as the economic slowdown stifles demand for loans, leaving lenders flush with cash. The three-month Shanghai interbank offered rate has fallen every day since March 27, sliding in that time to 4.33 percent yesterday from 4.95 percent, according to data compiled by Bloomberg. Today's preliminary reading, called the Flash PMI, is based on 85 percent to 90 percent of responses to a survey of more than

420 companies, according to HSBC. New Zealand Surplus Elsewhere in the Asia-Pacific region, New Zealand's government today projected a narrower budget surplus in 2015, the first in seven years, and indicated that a disorderly exit by Greece from the euro heightens the risk of achieving that goal. Vietnam's inflation in May eased to less than 10 percent for the first time in 19 months on declining bank lending and moderating food prices, a report today showed. The Bank of Japan said in a monthly report that it's "increasingly evident that Japan's economy is shifting toward a pick-up phase, although its economic activity has remained more or less flat." In Europe, a report today may show German business confidence fell for the first time in seven months. The Ifo institute's business climate index, based on a survey of 7,000 executives, will drop to 109.4 from 109.9 in April, according to the median forecast of 37 economists in a Bloomberg News survey. The U.S. Commerce Department may say today orders for durable goods rose 0.2 percent in April from the prior month, while a Labor Department report may say initial jobless claims for the week ended May 19 were unchanged at 370,000, Bloomberg surveys showed. Infrastructure Projects Chinese authorities "should speed up the implementation of key infrastructure projects" if growth keeps weakening in the second quarter, the Organization for Economic Cooperation and Development said in a semi-annual report on the global economy released this week. The OECD said Europe's debt crisis risks spiraling and seriously damaging the world economy. The group pared its 2012 China growth forecast to 8.2 percent from 8.5 percent, joining financial institutions including Morgan Stanley and Goldman Sachs Group Inc. that cut estimates this month. "As long as the easing measures filter through, China will secure a soft landing in the coming quarters," HSBC's Qu said. China's economy will expand 7.9 percent this quarter, according to a Bloomberg News survey May 14-15. That would be the sixth quarterly deceleration after an 8.1 percent pace in the first three months of this year. Aluminum Corp. of China Ltd. swung to a loss in the first quarter and may be unprofitable in the first half because of weak prices and higher fuel costs, the nation's biggest producer of the metal said in a Shanghai Stock Exchange filing last month.