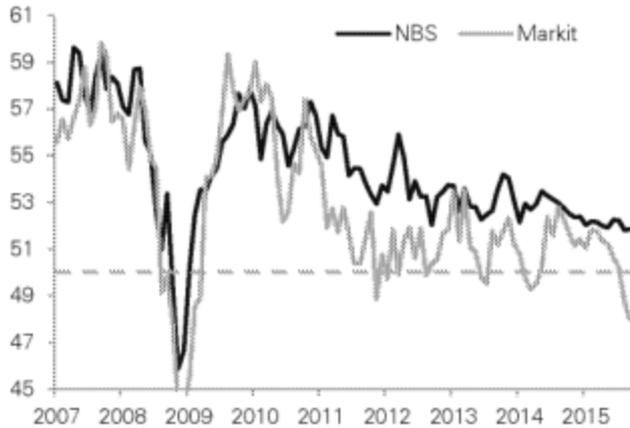




relative sizes of industry and services in the 2014 real GDP accounts. This composite index has been stable in recent months (as has GDP growth) but at a historically low level except for the depths of the 2008/09 crisis.

Figure 6: Composite PMIs



Sources: Haver and Deutsche Bank Research

Figure 7: Employment conditions from PMI surveys

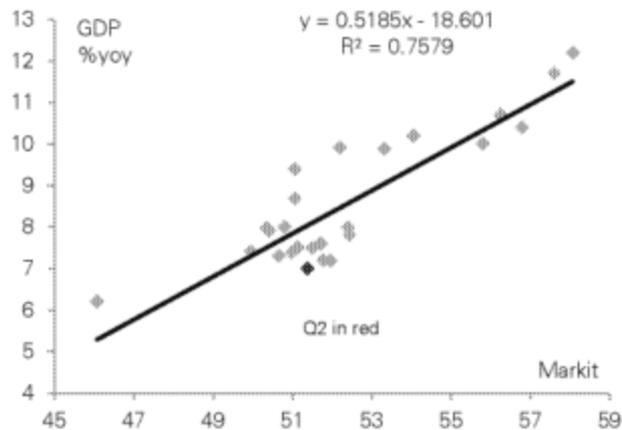


Sources: Haver and Deutsche Bank Research

We follow also the employment conditions in these surveys, reported in Figure 7 above. Not surprisingly, both surveys show employment conditions have been deteriorating since 2011. Interestingly, while the NBS headline indices have been reasonably stable, employment conditions seem to have continued to weaken according to this survey. Tentatively, we suggest this might be evidence that growth in China has continued to be very slightly below potential – even if growth is stable, firms are continuing to reduce employment.

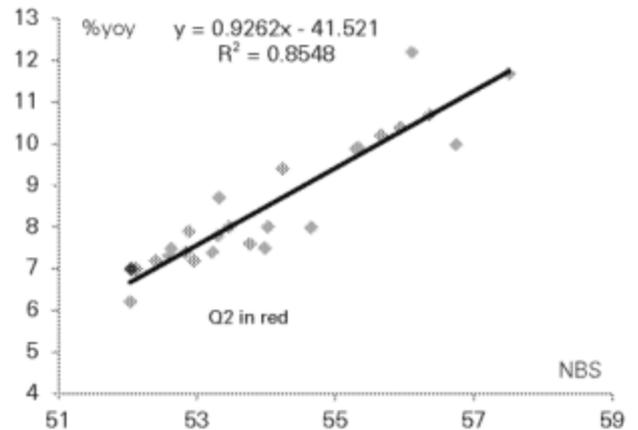
We can use these surveys to form a view on growth in Q3 since both surveys correlate quite well with current quarter GDP since 2009 – the NBS better than the Markit survey.⁴ Figures 8 and 9 therefore plot the quarterly average composite indexes against GDP growth. The Q2 observations are identified in red.

Figure 8: Markit composite PMI vs GDP growth



Sources: Haver and Deutsche Bank Research

Figure 9: NBS composite PMI vs GDP growth



Sources: Haver and Deutsche Bank Research

⁴While composite indexes for these surveys are available since 2006 (Markit) and 2007 (NBS) the current version of the Chinese GDP statistics has only been backdated to 2009.