China Manufacturing Hits Two-Year High

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HONG KONG (AP) — China's manufacturing crept higher in January to the fastest pace in two years, a survey showed Thursday, in another sign the world's second-biggest economy is coming out of a downturn.

A preliminary version of HSBC's monthly purchasing managers' index rose for the fifth month in a row to 51.9 in January from 51.5 in December. Readings above 50 on the 100-point scale indicate an expansion.

China's economy is rebounding from its deepest slump since the 2008 global financial crisis but many analysts predict the recovery will be anemic and wonder whether it will be sustained.

HSBC's chief China economist, Qu Hongbin, said that gains in new business allowed manufacturers to step up production by adding jobs and making more purchases.

"Despite the still tepid external demand, the domestic-driven restocking process is likely to add steam to China's ongoing recovery in the coming months," Qu said.

HSBC's index is based on responses from 85 to 90 percent of purchasing executives

surveyed at 420 manufacturers. The full version is due by Feb. 1.

While domestic demand is holding up, demand for shipments of goods like clothes, toys and electronics is more uncertain because of a weak U.S. recovery and austerity measures in Europe. Export-driven manufacturing employs millions of Chinese workers, though the country's reliance on trade has lessened as domestic consumption has grown.

The Chinese economy expanded 7.9 percent in the final quarter of last year, up from 7.4 percent in the previous quarter, according to data released earlier this month. For all of 2012, the economy expanded 7.8 percent, the slowest annual performance since the 1990s.

Economists were watching the index closely for any signs of how China would perform in the near future.

Many predict that the rebound will peak in the coming months before easing off to produce growth of about 8 percent for the year, well below double-digit rates of the past decade.

Yao Wei, an economist at Societe Generale, noted that the survey's sub-indexes showed production continued to grow but at a slower rate while new orders edged lower. Similar slowing in previous cycles often came three to four months before the peak.

"Hence, the next few reports will be crucial for the assessment of how much stronger growth can get," she wrote in a research note.

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