

HSBC China Manufacturing PMI

November PMI data pointed to strong improvement in manufacturing operating conditions

Summary

The headline HSBC China Manufacturing PMI™ rose to 55.7 in November, from 55.4 in the previous month, pointing to the most marked improvement of operating conditions in the Chinese manufacturing economy since the first month of data collection in April 2004.

Chinese manufacturers reported that output growth was maintained for the eighth month running in November. The rate of expansion remained strong, accelerating slightly from the previous month. Where an increase in production was signalled, panellists widely attributed this to greater inflows of new work, which rose at a considerable rate. New product launches and favourable market conditions were cited by some respondents as having led sales higher, although firmer demand was the most frequently mentioned factor supporting new business growth.

Data signalled that export sales at Chinese manufacturers rose again in November, increasing at the fastest rate since March 2005. Those firms that reported an increase in new export business widely attributed this to stronger external demand.

November data signalled that staffing levels in the Chinese manufacturing sector increased at the second-fastest rate in the survey history, extending the current period of growth to six months. Evidence provided by the survey panel suggested that job creation mainly reflected further gains in new work, while there was also some mention of business expansion policies.

Average input prices faced by Chinese manufacturers rose sharply in November. Brass, chemicals, coal, petroleum and steel were all reported to have risen in price on the month. However, strong competitive pressures meant that firms were unable to pass on the full extent of the rise in costs to clients, with prices charged rising at a much slower rate than overall cost burdens. Even so, output price inflation was marked, and far faster than the series average.

Purchasing activity rose further in November, increasing at a considerable rate that was the third-fastest recorded by the series to date. Increased input buying continued to increase pressure on supplier capacity, with average lead times lengthening for the fourth month in a row.

Comment

Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist for China at HSBC said:

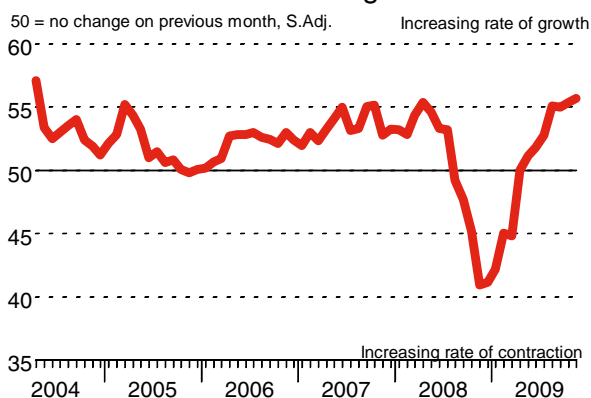
"The sustained improvement in the HSBC China Manufacturing PMI implies that China's recovery has been consolidated. Rising new orders and production, plus the rapid expansion of new export orders, have and will generate new jobs. Despite the increasing inflationary pressure on input prices, inflation in finished goods will be relatively mild given the still excessive capacity in many sectors."

Key points

- Output and new business growth accelerated. Gain in new exports strongest since March 2005.
- Job creation the second-fastest in the series history.
- Average input costs rose sharply in November.

Historical Overview

HSBC China Manufacturing PMI



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Notes to Editors:

The HSBC China Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Chinese Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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