HSBC Purchasing Managers' Index 2009

compiled by markit

Embargoed until: 10:30 (BEIJING), 1 December 2009

HSBC China Manufacturing PMI

November PMI data pointed to strong improvement in manufacturing operating conditions.

Key findings:

- 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.

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. The headline index has gained over thirteen points since the start of 2009, when the global economic crisis was around its peak.

Behind the latest PMI reading, November's survey signalled that output and incoming new business increased at strong and accelerated rates, while staffing levels rose for the sixth successive month. Pre-production inventories were reduced slightly following marginal growth in October, while suppliers' delivery times continued to lengthen.

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. November marked the eighth successive month in which intakes of new orders increased. New product launches and favourable market conditions were cited by a number of respondents as having led sales higher, although firmer demand was the most frequently mentioned factor supporting new business growth.

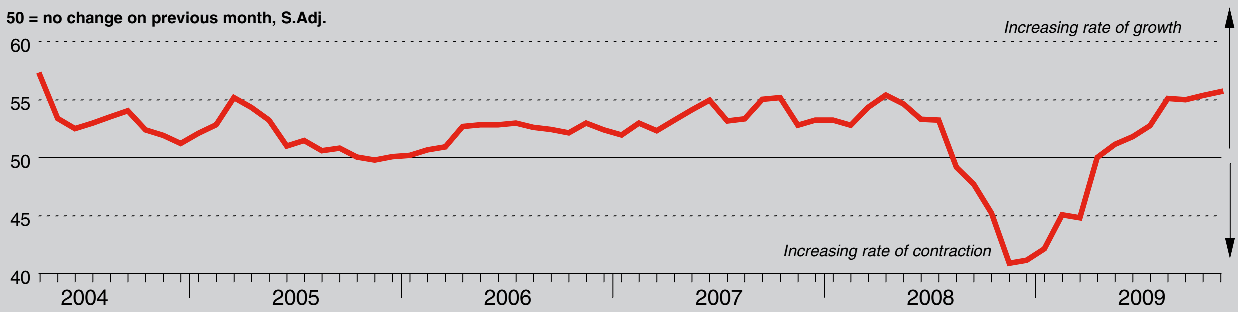
Data signalled that export sales at Chinese manufacturers rose again in November, increasing at the fastest rate since March 2005. Those manufacturers that reported an increase in new export business widely attributed this to stronger external demand, largely reflecting an improvement in global economic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

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 business, 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 amongst firms operating in the Chinese manufacturing sector 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.

HSBC China Purchasing Managers' Index (PMI™)



The HSBC China Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

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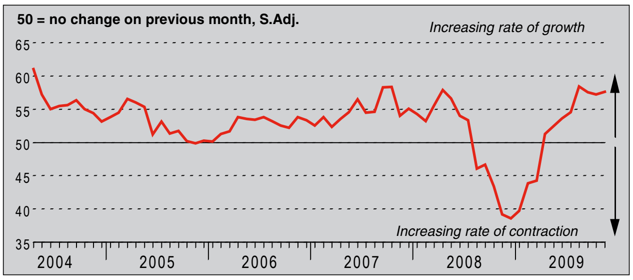
Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	29.5	56.9	13.6	15.9
	Jul	31.5	47.2	21.2	10.3
	Aug	31.6	53.8	14.6	17.0
	Sep	32.5	55.4	12.1	20.5
	Oct	25.7	55.2	19.1	6.6
	Nov	25.3	58.8	15.9	9.5

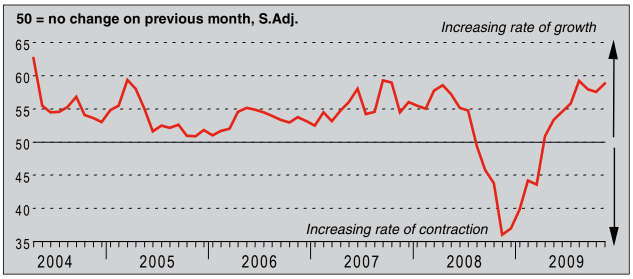


Production growth was registered in the Chinese manufacturing sector for the eighth month running in November. The seasonally adjusted Output Index rose slightly from the previous month, pointing to a marked expansion of production that was the joint second-sharpest since April 2008. More than one-quarter of the survey panel reported a rise in output from a month ago, with many linking growth to greater inflows of new business from both domestic and external sources.

New Orders Index

Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	31.2	51.5	17.3	13.9
	Jul	32.5	48.0	19.5	13.0
	Aug	36.4	50.3	13.3	23.0
	Sep	34.0	52.7	13.3	20.6
	Oct	26.5	55.1	18.4	8.1
	Nov	27.3	57.5	15.2	12.1

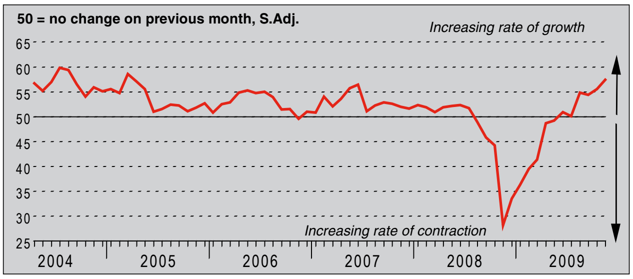


Levels of incoming new work received by Chinese manufacturers rose again in November, extending the current period of expansion to eight months. New business growth remained considerable, accelerating to the most marked for three months. Those panellists that reported gains in new business frequently linked this to strong market demand. Some firms also cited buoyant economic prospects as having a positive impact upon customers' spending decisions.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	16.3	75.7	8.1	8.2
	Jul	14.3	70.7	15.0	-0.8
	Aug	19.5	74.5	5.9	13.6
	Sep	18.2	72.7	9.1	9.1
	Oct	18.5	70.8	10.6	7.9
	Nov	14.3	76.4	9.3	5.0

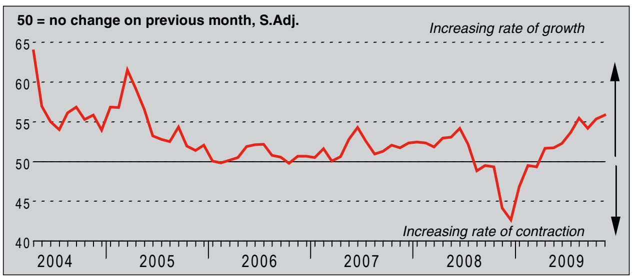


Data signalled that the recovery of Chinese manufacturing exports continued to gain momentum in November, with more than 14% of firms monitored by the survey reporting a rise in export sales since October. After adjusting for seasonal variation, the New Export Orders Index rose to a level indicative of a marked rate of expansion that was the fastest since March 2005. Of those companies that reported an increase in new export business, many linked this to firmer client demand.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	13.3	80.5	6.2	7.1
	Jul	14.5	78.1	7.4	7.0
	Aug	15.2	80.4	4.5	10.7
	Sep	13.8	81.8	4.4	9.4
	Oct	16.1	77.5	6.4	9.7
	Nov	13.0	83.4	3.6	9.4

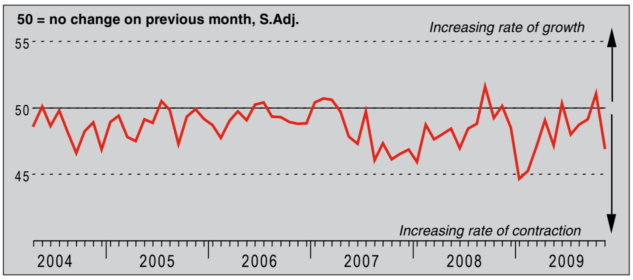


The seasonally adjusted Backlogs of Work Index remained above the neutral level of 50.0 for the eighth consecutive month in November, thereby highlighting a further increase in volumes of work-in-hand at Chinese manufacturers. The index rose to its highest level since May 2005, pointing to a marked rate of expansion. Among the 13% of panellists that reported a rise in backlogs of work, a number cited a lack of availability of raw material inputs. Gains in new business were also mentioned as having placed added pressure on capacity.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	11.9	77.5	10.6	1.2
	Jul	9.7	76.2	14.1	-4.4
	Aug	10.7	76.0	13.3	-2.6
	Sep	11.9	75.3	12.8	-1.0
	Oct	12.9	76.8	10.3	2.6
	Nov	6.7	76.2	17.1	-10.4

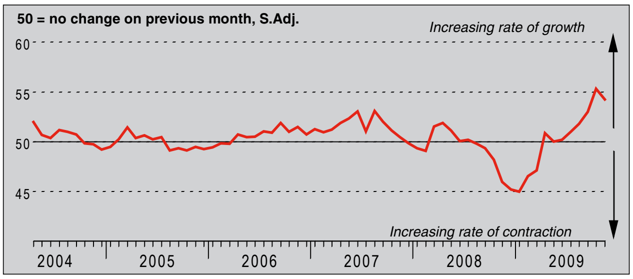


November data pointed to a fall in finished goods holdings in the Chinese manufacturing sector following a modest expansion in the previous month. The rate at which stock levels were reduced was the fastest since February, when the global economic downturn was at its worst. Those panellists that reported a reduction in post-production inventories widely attributed this to higher-than-expected sales as a greater proportion of orders were met directly from existing stock.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	8.3	84.8	6.9	1.4
	Jul	12.4	81.8	5.7	6.7
	Aug	13.2	79.3	7.5	5.7
	Sep	14.8	79.9	5.2	9.6
	Oct	12.4	84.7	2.9	9.5
	Nov	8.4	88.7	2.9	5.6

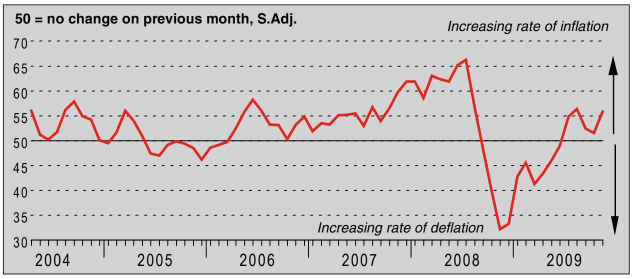


Despite falling since October, the seasonally adjusted Employment Index pointed to a solid rise in staffing levels at Chinese manufacturers that was the second-fastest recorded by the series to date. Where a rise in employment was signalled, companies generally attributed this to increased production requirements. There was also some mentioned of business expansion strategies. The current period of workforce growth now extends to six months.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	14.6	76.2	9.2	5.4
	Jul	16.5	75.1	8.3	8.2
	Aug	19.1	75.0	5.9	13.1
	Sep	9.1	80.6	10.3	-1.2
	Oct	8.6	79.4	12.0	-3.5
	Nov	16.7	77.9	5.4	11.3

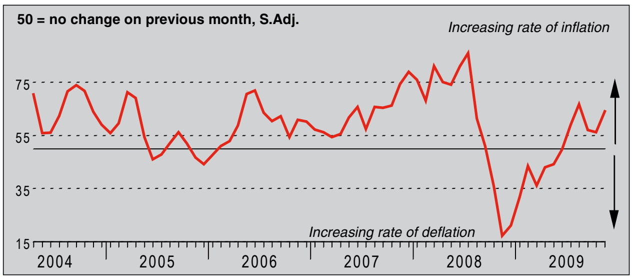


Output price inflation was registered for the fifth month running in November, accelerating markedly to the second-sharpest for fifteen months. Approximately 17% of companies monitored by the survey reported a rise in prices charged since October, over three times the proportion that signalled a decline. Respondents reported that higher factory gate prices reflected the need to partly offset rising input costs. However, the rate at which output prices were raised was much slower than input price inflation, with a number of firms bemoaning competitive pressures.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	22.1	67.4	10.5	11.6
	Jul	25.3	65.8	8.9	16.4
	Aug	40.9	55.3	3.8	37.1
	Sep	21.8	63.8	14.4	7.5
	Oct	17.6	68.1	14.3	3.4
	Nov	30.4	65.9	3.7	26.7

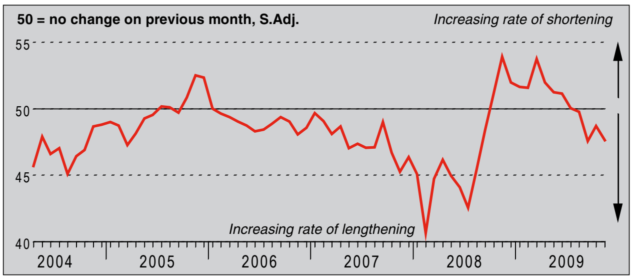


The seasonally adjusted Input Prices Index rose to its second-highest level since July 2008, only surpassed by that seen in August, to signal that average cost burdens faced by Chinese manufacturers increased at a considerable rate in November. Input costs have risen for five consecutive months. Prior to this sequence, the average cost of firms' purchases had fallen for nine months in a row. Brass, chemicals, coal, petroleum and steel were all cited by panellists as having risen in price.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net +/-
2009	Jun	5.2	91.4	3.3	1.9
	Jul	4.5	89.2	6.3	-1.9
	Aug	4.9	89.4	5.7	-0.7
	Sep	5.1	84.7	10.3	-5.2
	Oct	5.1	88.1	6.8	-1.8
	Nov	4.4	86.8	8.7	-4.3

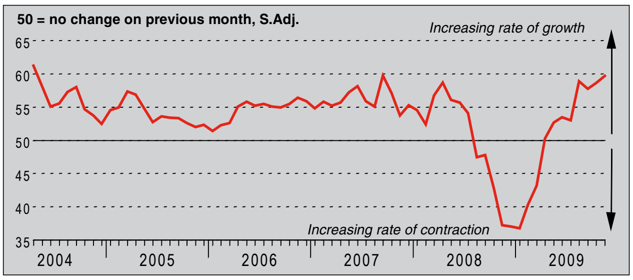


The average time taken by vendors to deliver inputs to Chinese manufacturers lengthened for the fourth consecutive month in November, with almost 9% of firms reporting slower lead times. This was up from around 7% in October. Moreover, the rate at which supplier performance deteriorated accelerated to the second-fastest since August last year. Anecdotal evidence suggested that delays reflected a combination of supply shortages at vendors, transportation difficulties and poor weather conditions.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	26.7	56.2	17.0	9.7
	Jul	28.5	48.0	23.5	5.0
	Aug	32.2	52.3	15.5	16.7
	Sep	32.5	51.4	16.2	16.3
	Oct	29.1	55.3	15.5	13.6
	Nov	26.9	56.0	17.1	9.8

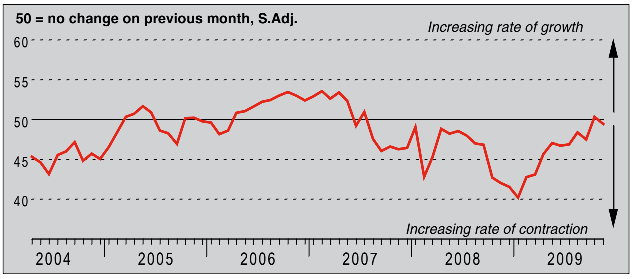


Buying activity amongst companies operating in the Chinese manufacturing sector continued to rise in November, with the rate of expansion accelerating to the third-fastest since the inception of the series in April 2004. Purchasing growth was in contrast to the severe reductions seen around the turn of the year. Those companies that reported a rise in input buying widely attributed this to increased production requirements, while the need to replenish stocks was also reported to have influenced purchasing decisions.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Jun	10.6	71.9	17.5	-6.9
	Jul	13.8	68.5	17.7	-4.0
	Aug	12.7	72.0	15.3	-2.5
	Sep	11.4	72.6	16.0	-4.6
	Oct	13.4	74.3	12.3	1.1
	Nov	11.0	74.5	14.6	-3.6



Following a slight rise in the previous month, inventories of raw materials and semi-manufactured goods in the Chinese manufacturing sector fell in November. Even so, the reduction was only marginal, and much slower than that seen at the start of the year. Where a decline in pre-production inventories was signalled, firms linked this to stock rationalisation policies. Those firms that reported a rise in stock holdings often attributed growth to increased purchasing.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 430 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

Warning