

## HSBC China Manufacturing PMI

Growth of the Chinese manufacturing sector continued to gain momentum during December

### Summary

At 56.1 in December, up from 55.7 a month previously, the headline HSBC China Manufacturing PMI™ pointed to a marked improvement of operating conditions in the Chinese manufacturing sector that was the second-fastest recorded by the series to date. For Q4 as a whole, the PMI averaged its highest reading in the survey history.

Manufacturing production in China rose sharply in December, with the average rate of expansion for Q4 the fastest since Q2 2004. Where a rise in output was signalled, panellists widely attributed this to greater inflows of new work. There were also reports that growth was supported by new production lines coming on stream. Output levels have now risen for nine successive months.

Latest data pointed to the ninth consecutive monthly expansion of new order volumes received by Chinese manufacturers in December. The rate of increase in new work was considerable, accelerating to the fastest in four months. Those respondents that reported a rise in new business often linked this to buoyant demand from both domestic and external markets. Growth of new export orders was the fastest since March 2005, and in marked contrast to the severe reductions seen in Q4 2008. Foreign order levels have risen throughout the second half of 2009.

Staffing levels in the Chinese manufacturing sector continued to rise in December. Despite easing for the second month running, the rate of job creation was the third-fastest since the start of the series in April 2004. Anecdotal evidence suggested that firms were encouraged to take on additional workers in line with increased production requirements.

December data signalled that prices charged by Chinese manufacturers were raised at a considerable rate that was the fastest since July 2008. Companies reported that a combination of buoyant market demand and rising raw material prices had generated inflationary pressure. Average input costs faced by Chinese manufacturers rose sharply in December. Where an increase in purchase costs was signalled, panellists frequently linked this to rising raw material prices, with steel mentioned in particular. Aluminium, coal, petroleum, textiles and zinc were also cited as having risen in price on the month.

### Comment

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

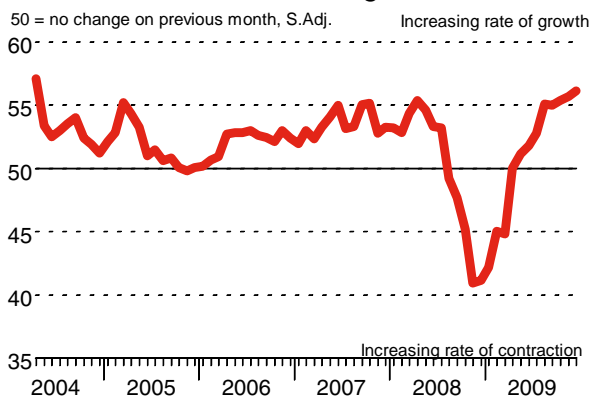
*"The second-round effect of stimulus measures is filtering through to substantially benefit the manufacturing sector as we expected. The significant increase in the Output Prices Index in recent months is due to stronger demand and rising input costs, which have added to inflationary pressures. Yet, we believe inflation will be manageable in the coming months."*

### Key points

- Manufacturing output rose sharply in December.
- Job creation remained solid.
- Both input and output price inflation accelerated.

### 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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