

HSBC China Manufacturing PMI

PMI hits survey high at the start of 2010, pointing to sharp growth of the Chinese manufacturing sector

Summary

At 57.4, up from 56.1 in the previous month, the headline HSBC China Manufacturing PMI™ rose to a record high at the start of 2010, signalling a marked improvement of operating conditions in the Chinese manufacturing sector. The index has now risen more than sixteen points since posting a record low in November 2008.

Manufacturing production in China rose for the tenth successive month in January, increasing at a sharp rate that was the second-fastest in the survey history. Where an increase in output was signalled, firms often linked growth to greater inflows of new business from external and domestic sources. Data signalled that new orders rose at the fastest rate since the first month of data collection in April 2004. New business growth was supported by firmer market demand, while there were also reports that improved economic conditions had led to higher client spending. Export sales also rose in January, increasing at a near-record rate. This was in sharp contrast to the severe reductions seen at the beginning of 2009.

Staffing levels in the Chinese manufacturing sector continued to rise in January. Despite easing to the slowest in five months, the rate at which firms added to their workforce numbers was comfortably faster than the series average. Those respondents that reported a rise in employment generally attributed growth to continued gains in new business and a subsequent increase in production requirements.

Prices charged by Chinese manufacturers rose again in January, extending the current period of inflation to seven months. The rate at which firms raised their charges was the most marked since July 2008, mainly reflecting rising input prices. Higher client demand also allowed manufacturers to raise their factory gate prices on the month.

Data signalled that average cost burdens faced by Chinese manufacturing firms rose sharply in January, buoyed by increased prices for a number of raw materials. Prices paid for brass, copper, oil, steel and zinc were all reported to have risen from one month previously. Input price inflation, which was the strongest since July 2008, has now been signalled for seven months in succession.

Comment

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

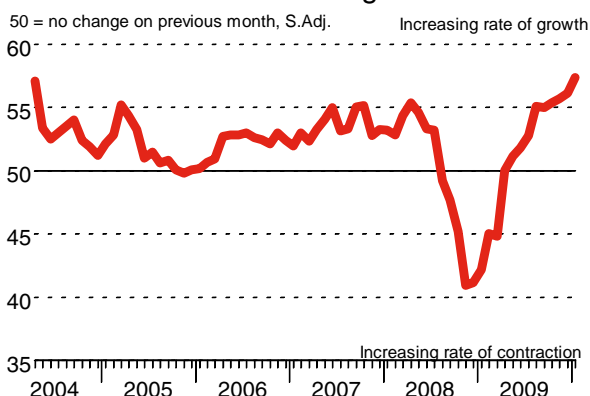
"Industrial activity continues to accelerate, implying stronger GDP growth in 1Q. But rising input and output prices also point to greater inflationary pressure, which will likely prompt more tightening measures in the coming months."

Key points

- Output and new business growth the fastest since April 2004.
- Export sales rose at near-record rate.
- Input price inflation accelerated sharply.

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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