

HSBC China Manufacturing PMI

Marked growth of output and new business led to solid improvement in overall operating conditions

Summary

Despite slipping to a three-month low of 55.8 in February, the headline HSBC China Manufacturing PMI™ posted a level indicative of a marked improvement of operating conditions in the Chinese manufacturing sector.

Chinese manufacturing production increased for the eleventh month running in February. Despite easing to the slowest since last November, the rate of expansion was still marked. Where a rise in manufacturing output was signalled, respondents attributed growth to further gains in new business.

The level of new work received by Chinese manufacturers rose again in February. New business growth remained sharp, despite easing from January's near-record. Those firms that reported a rise in new order intakes often linked this to firmer client demand. Export sales increased to the greatest extent since March 2005. Anecdotal evidence suggested that this mainly reflected improved economic conditions among a number of China's key trading partners.

Staffing levels continued to rise in February, although the rate at which firms added to their workforce numbers was only marginal and the slowest in seven months. Business expansion plans and rising production requirements were cited by panellists as having supported employment growth.

Average input costs rose for the eighth consecutive month in February. Although much slower than one month previously, the rate of inflation was still considerable. Prices paid for aluminium, coal, oil, steel and zinc were all reported to have risen.

Latest data signalled that prices charged rose in February, albeit to a much lesser extent than one month ago. Those firms that reported an increase in factory gate prices widely attributed inflation to rising prices for a range of raw materials.

Purchasing activity increased markedly in February, largely as a result of rising output requirements. Subsequently, the average time taken by vendors to deliver inputs to manufacturers lengthened for the seventh month in succession. Data also signalled that firms accumulated pre-production goods at the fastest rate since the start of the series in April 2004. Panellists widely commented that higher stock levels reflected strong sales and output forecasts.

Comment

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

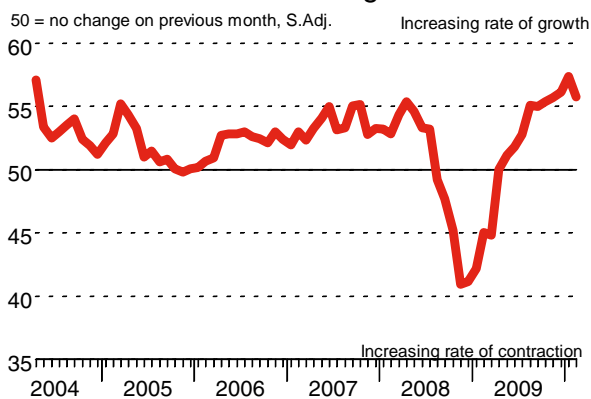
"Despite the moderation in the headline China Manufacturing PMI, growth momentum for China's manufacturing sector remains strong, pointing to a further acceleration in industrial activities in the coming quarters."

Key points

- Output rose markedly, supported by strong gains in new orders.
- Export sales increased to the greatest extent since March 2005.
- Pre-production inventories rose at the fastest rate in the survey history.

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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