

## HSBC China Manufacturing PMI

Output growth supported by near-record rise in new orders. Input price inflation remained substantial.

### Summary

At 57.0, the headline HSBC China Manufacturing PMI™ rose to its third-highest level in the survey history during March, pointing to a marked improvement of operating conditions in the Chinese manufacturing economy. For Q1 2010 as a whole, overall growth of the sector was the most marked since the start of the series in April 2004.

Manufacturing output rose again in March. The rate of expansion was substantial, and slightly faster than in the previous month. Those respondents that reported an increase in production often linked growth to buoyant client demand.

The level of new business continued to rise in March, increasing at the third-fastest rate in the series history. New business growth has now been maintained for twelve months in succession. Where an increase in new order intakes was signalled, respondents generally attributed this to greater demand from both external and domestic sources. Export sales rose at a near-record pace in the final month of Q1 2010, largely as a result of ongoing economic recoveries in a number of China's key trading partners.

Backlogs were accumulated at a marked rate in March as manufacturers continued to find it increasingly difficult to complete both existing and new contracts. Meanwhile, staffing levels increased at a solid rate that was the fastest in three months. Business expansion plans and higher output requirements were cited as having supported employment growth.

Average input costs rose substantially in March. Anecdotal evidence suggested that inflation reflected rising prices for a range of raw materials, with oil and steel mentioned in particular. Subsequently, manufacturers reported raising their output prices in an attempt to maintain margins. However, increased competition meant that charges rose to a lesser extent than cost burdens, and at the slowest rate in five months.

Purchasing activity rose again in March. Although still marked, the rate of expansion was the weakest since July last year. Nonetheless, average vendor performance deteriorated at the fastest rate in nineteen months, partly reflecting transportation difficulties. Increased purchasing meant that stocks were accumulated for the fourth consecutive month.

### Comment

Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

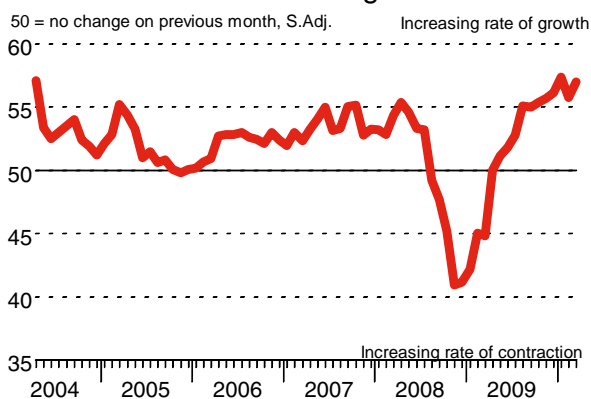
*"Another substantially high headline manufacturing PMI reading, combined with strong growth of exports, points to an acceleration in industrial production and likely over 11% y-o-y GDP growth in 1Q. With inflation pressures rapidly accumulating, this increases the risk of interest rate hikes in the coming months."*

### Key points

- Sharper rises in output and new orders.
- Export sales rose substantially.
- Faster deterioration in vendor performance.

### Historical Overview

#### HSBC China Manufacturing PMI



**For further information, please contact:**

**HSBC**

Hongbin Qu, Chief Economist, China & Co-Head  
of Asian Economic Research  
Telephone +852-2822-2025  
Email hongbinqu@hsbc.com.hk

Dan Dan Chang, Head of Group Communications, China  
Telephone +86-21-3888-1807  
Email dandanchang@hsbc.com.cn

**Markit**

Alex Hamilton, Economist  
Telephone +44-1491-461-076  
Email alex.hamilton@markit.com

Caroline Lumley, Corporate Communications  
Telephone +44-20-7260-2047  
Email caroline.lumley@markit.com

**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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Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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