

HSBC China Manufacturing PMI

PMI fell to an eleven-month low in May, signalling only a moderate improvement of Chinese manufacturing operating conditions

Summary

The recovery of China's manufacturing sector lost some momentum in May, highlighted by a drop in the headline HSBC China Manufacturing PMI™ – a seasonally adjusted index designed to measure the performance of the manufacturing economy – to 52.7 from a revised figure of 55.2 in April. May's reading was the lowest in eleven months and indicative of only a modest improvement of operating conditions in the manufacturing sector.

Manufacturing output in China rose again in May. However, the rate of expansion was only modest, and eased to the slowest in twelve months in line with a weaker rise in new business. The slower expansion of new orders was reportedly reflective of relatively lacklustre demand from both home and external markets. New business received from abroad rose at the least marked rate in ten months, although growth was still above the historical series average.

Backlogs of work in the Chinese manufacturing sector were accumulated at a solid rate in May, extending the current period of growth to fourteen months. Those respondents that reported an increase in unfinished business often mentioned that resources had been assigned to meet higher intakes of new business.

Chinese manufacturing employment rose again in May, although the pace at which firms added to their workforce numbers was only slight, and eased to the slowest since June 2009. According to respondents, employment growth reflected greater inflows of new business. Those panellists that reported a reduction in employment linked this to restructuring efforts and, in some cases, an increased number of retirements.

According to the latest data, the average cost of Chinese manufacturers' purchases rose substantially in May, albeit at a markedly slower rate that was the weakest in seven months. Prices paid for grain, oil and steel were all reported to have risen. Input price inflation has now been signalled for eleven months in succession. However, firms were unable to pass on the full extent of cost rises to clients, with output prices increasing at the slowest rate since last October. This primarily reflected higher competition for new business, while there were reports that some firms had reduced their factory gate prices to satisfy client requests.

Comment

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

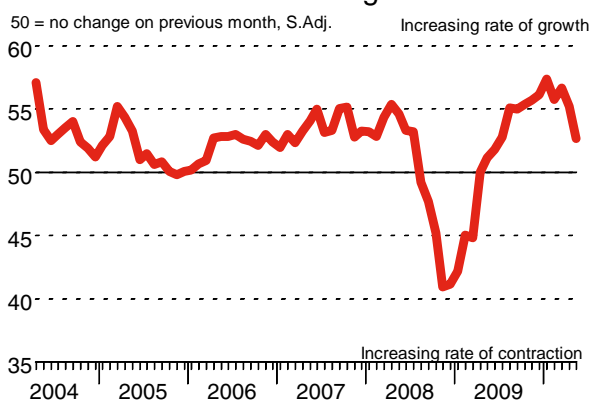
"The slowdown in the headline manufacturing PMI suggests that the overheating risk is likely to ease as tightening measures filter-through. That said, we see robust economic growth without double-dip risks not least because of massive existing infrastructure investment and resilient private consumption."

Key points

- Markedly slower rises in both output and new business recorded in May.
- Job creation eases to moderate pace.
- Input and output prices both rise at slowest rates in seven months.

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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