

HSBC China Manufacturing PMI

Marginal growth of Chinese manufacturing sector signaled by June's survey

Summary

At 50.4, down from 52.7 in the previous month, the headline HSBC China Manufacturing PMI™ – a seasonally adjusted index designed to measure the performance of the manufacturing economy – signalled only a marginal improvement in Chinese manufacturing sector operating conditions.

Manufacturing output in China fell during June, ending a fourteen-month period of expansion. Although only marginal, the pace of contraction contrasted with near-record growth registered at the start of the year.

For the first time in fifteen months, the level of new business taken by Chinese manufacturing firms fell in June. The rate of decline in new work was only fractional, but marked a distinct turnaround from strong growth seen throughout Q1 2010. Those respondents that reported a drop in new orders widely commented that this reflected softer market demand. New orders placed by foreign clients also fell in June, with the pace of decline the fastest since March 2009. Manufacturers widely mentioned that reduced new export business reflected lacklustre global demand.

Manufacturing employment in China rose for the thirteenth month running in June. The rate at which firms added to their workforce numbers was modest, though slightly faster than in the previous month. Manufacturers reported adding to their payrolls as part of efforts to expand productive capacity.

Output prices set by Chinese manufacturing firms fell for the first time in twelve months during June. Anecdotal evidence suggested that reduced output charges reflected lower input costs and, in some cases, client requests for price discounts.

Latest data signalled that average input costs fell in June, ending a sequence of inflation that had stretched to eleven months. Where a decline in cost burdens was signalled, companies widely attributed this to lower raw material prices.

In response to lower production requirements, purchasing activity in the Chinese manufacturing sector fell in June. The pace of reduction was only modest, but contrasted with rapid growth seen around the turn of the year. The fall in purchasing also reflected a utilisation of existing pre-production inventories, which fell for the first time in seven months.

Comment

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

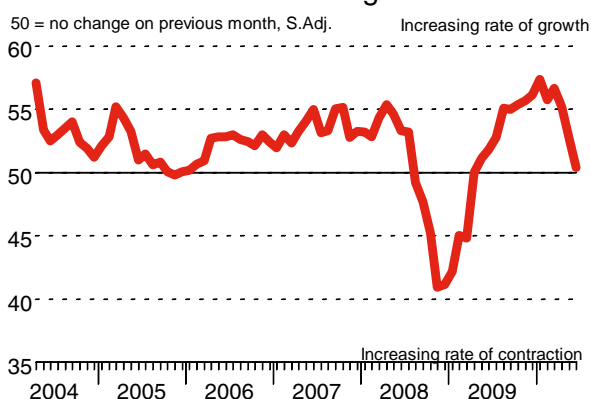
"The moderation in the manufacturing PMI implies slower sequential growth in China's manufacturing sector, partly due to the tightening measures taking effect. But fears about hard-landing are overplayed. We expect China to achieve around 9% growth in 2H underpinned by massive ongoing investment and robust private consumption."

Key points

- Slight declines in output, new orders and new exports signalled.
- Modest employment growth.
- Output prices fell for the first time in twelve 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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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