

HSBC China Manufacturing PMI™

Chinese manufacturing sector operating conditions deteriorated for the first time in sixteen months during July

Summary

At 49.4, down from 50.4 in June, the seasonally adjusted headline HSBC China Manufacturing PMI™ posted below the neutral 50.0 threshold in July, pointing to the first month-on-month deterioration in Chinese manufacturing sector operating conditions since March 2009. This marked a distinct turnaround from the strong sector performance seen at the beginning of 2010, and continues the cooling trend observed since that peak.

Manufacturing production in China fell again in July, decreasing at a fractional rate that was slightly slower than in the preceding month. Those panellists that reported a decline in output often linked this to reduced intakes of new business, which fell for the second month in succession. Furthermore, the rate of decline in new work accelerated to the quickest since March 2009, with many panellists citing lacklustre client demand as having negatively impacted upon new order books. New export business also fell in July, contrasting with near-record rates of growth seen throughout Q1 2010.

According to the latest data, outstanding business rose at a negligible rate in July, with a number of respondents reporting that they had sufficient capacity to deal with both new and existing business.

Staffing levels in the Chinese manufacturing sector rose again in July, extending the current period of growth to fourteen months. The rate of job creation was nevertheless only slight, and slower than in the preceding month. Company expansion plans were cited by panellists as having supported employment growth in the latest survey period. Conversely, those firms that noted a drop in staff numbers widely commented that employees had left due to low salary payments.

Average input costs fell further in July, decreasing at a solid rate that was the fastest since May 2009. As a result, factory gate charges fell for the second month running in July. Moreover, the solid rate of price discounting also reflected increased competition for new business. The PMI measures for output charges and input prices have fallen almost seventeen and thirty points respectively since the start of the year, highlighting the rapid nature of the slowdown in inflationary pressure.

Comment

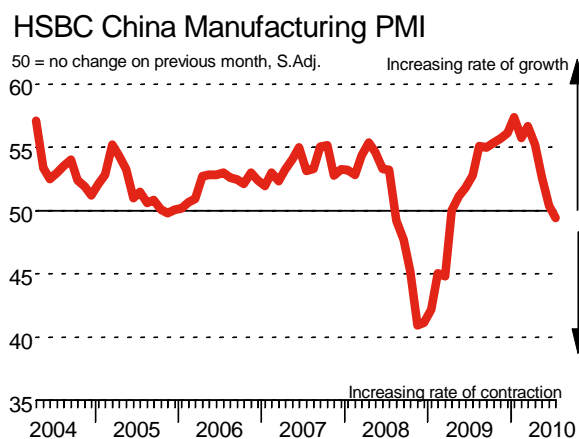
Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"China manufacturing PMI came in at 49.4, the first sub-50 reading in 16 months. This suggests that manufacturing production growth continued to decelerate last month, reflecting the combined effect of credit tightening, property cooling measures and Beijing's measures to cut capacity in energy-intensive sectors. However, there is no need to panic because this is just a slowdown, not a meltdown. We still expect the economy to rely on continued investment into ongoing infrastructure projects, public housing construction and resilient private consumption to grow by around 9% in 2H 10 and 2011."

Key points

- Fastest fall in new business since March 2009.
- Marginal rise in Chinese manufacturing employment.
- Average input costs fell at the fastest rate in fourteen months.

Historical Overview



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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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