

## HSBC China Manufacturing PMI™

PMI hit five-month high in September, supported by faster rises in production and new business

### Summary

At 52.9, up from 51.9 in August, the seasonally adjusted headline HSBC Purchasing Managers' Index™ (PMI™) pointed to a moderate improvement in Chinese manufacturing sector operating conditions that was the strongest in five months. The index has climbed over three points since posting below the neutral 50.0 threshold in July, suggesting that growth momentum in the sector continued to build during the latest survey period.

Manufacturing production in China rose further during the latest survey period. The rate of expansion was moderate, and slightly faster than the long-run series average. Where a rise in output was signalled, panellists primarily attributed growth to greater inflows of new business, which rose for the second month in a row. The rate of new business growth was solid, but contrasted with strong rates seen throughout Q1 2010. Anecdotal evidence suggested that the latest expansion was supported by stronger market demand. New export business rose in September, ending a three-month period of decline. However, the rate of growth was only marginal.

Staff numbers continued to rise in September, although the rate of job creation was only slight. Where a rise in employment was signalled, panellists attributed growth to increased new business wins. However, this was partly offset by reports of employee resignations and retirements.

Average input costs rose substantially in September, with the rate of inflation accelerating steeply since the preceding month. Respondents frequently cited higher raw material prices as the main driver of inflation, with steel mentioned in particular. As a result, manufacturers raised their output prices on average in an attempt to maintain operating margins. The rate of output price inflation was sharp, and the fastest in eight months.

Purchasing activity rose solidly in September, largely reflective of further gains in new business and a subsequent rise in production requirements. The latest increase, which extends the current period of growth to three months, was the fastest since April. Subsequently, average vendor performance deteriorated to the greatest extent in five months, with panellists citing supply shortages at vendors as having negatively impacted upon delivery schedules.

### Comment

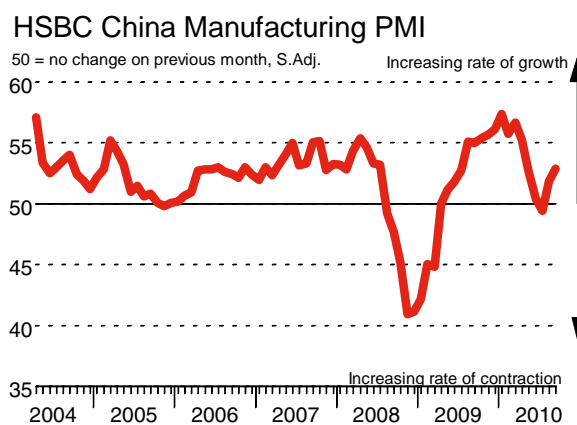
Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The upbeat reading of the HSBC China Manufacturing PMI (Sep) implies that China's growth slowdown is slowing. A pick up in new orders means that domestic demand is still strong. Despite uncertainties on growth in global demand, we expect China to rely on continued investment in ongoing infrastructure projects and resilient consumption to grow by around 9% in the rest of the year and 2011."*

### Key points

- New export business rose for the first time in four months.
- Marginal increase in manufacturing employment.
- Input price inflation accelerated markedly.

### 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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