

## HSBC China Manufacturing PMI™

Growth of the Chinese manufacturing sector gathered momentum at the start of Q4

### Summary

Chinese manufacturing sector operating conditions continued to strengthen at the start of the final quarter, with the rate of improvement quickening to the fastest since April. The headline seasonally adjusted HSBC China Manufacturing Purchasing Managers' Index™ (PMI™) climbed from 52.9 to 54.8 in October, representing one of the largest month-on-month rises in the PMI since the start of the series in April 2004.

Manufacturing output growth surged in October. The latest increase, which extends the current period of expansion to three months, was the fastest since January. Where a rise in production was signalled, respondents commonly linked growth to higher intakes of new business.

Overall new business received by Chinese manufacturing firms rose sharply in October, with the pace of expansion reaching a six-month high. However, a faster uptick in total new work relative to new export orders, which increased only modestly, suggested that total new business growth was centred on the domestic market in October.

Backlogs of work rose for the fourth month running in October, although the rate of accumulation was only modest. Anecdotal evidence suggested that outstanding business growth reflected strong gains in new work.

Average input costs rose considerably in October, and at the fastest rate since July 2008. The PMI input prices measure has risen more than thirty-one points since July, highlighting the rapid extent which inflationary pressures have built within the sector. Prices paid for coal, cotton, grain and steel were all reported as having risen since September. Higher cost burdens were also reflective of attempts to meet government emission targets, state restrictions on electricity usage and, in some cases, the rising price of global commodity futures.

Output prices set by Chinese manufacturing firms rose further in October, with the rate of inflation hitting a twenty-seven month high. The latest increase was the third in as many months, and faster than the long-run trend. Factory gate price inflation predominantly reflected the need to protect operating margins in the face of rising input costs.

### Comment

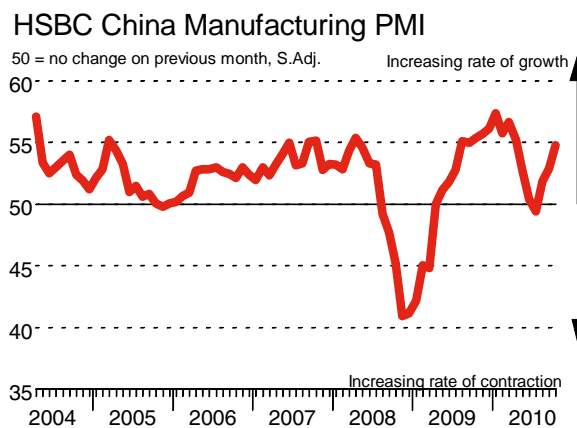
Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"Another upbeat reading for the HSBC China Manufacturing PMI suggests the strong growth momentum in domestic demand to warrant around 9% GDP growth in 4Q, despite the still soft increase in new exports orders. The jump in output prices reflects higher input costs amidst strong demand, which also heralds a higher CPI likely to reach its cyclical peak in October."*

### Key points

- Strong domestic demand drives production higher.
- New export orders rose only modestly.
- Input price inflation the fastest in over two years.

### 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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