HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC China Manufacturing PMI™

Input cost inflation surged in November, leading manufacturers to raise their output prices at a series-record rate.

Key findings:

- Strongest rise in overall new orders since March.
- Supply chain bottlenecks widespread in November.
- Input price inflation the fastest since July 2008; output charges raised at rapid rate.

The Chinese manufacturing sector strengthened further in November, with overall business conditions improving at the strongest pace in eight months. This was signalled by the headline HSBC Purchasing Managers' Index™ (PMI™) posting 55.3, up from 54.8 in October. Considerable price pressures were also indicated by November's survey, with both output and input prices rising at substantial and accelerated rates.

Manufacturing production in China rose again during November, extending the current period of expansion to four months. Prior to this sequence of growth, output had fallen marginally in both June and July. The latest increase was steep, and much stronger than the long-run series average. Where a rise in manufacturing production was signalled, panellists commonly linked growth to further gains in new work.

Overall new business rose for the fourth month running in November. The rate of expansion was substantial, and quickened to the fastest in eight months. According to respondents, new business wins reflected strong market demand. New export orders also rose in November, with the rate of growth quickening to a seven-month high. Nonetheless, a faster increase in total new work relative to new export orders, suggested that overall new business growth was centred on the domestic market.

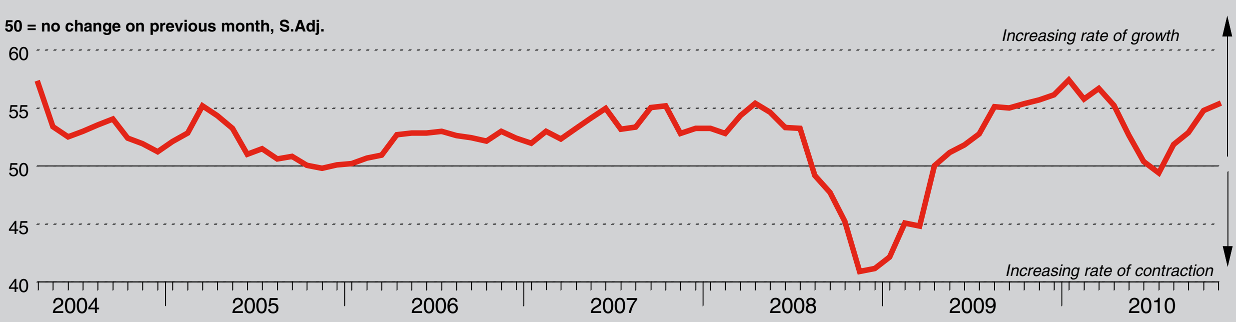
Further new order wins contributed to another rise in backlogs of work in November, which increased at a solid rate that was the strongest since May. The latest rise was the fifth in as many months. Nonetheless, employee numbers rose only fractionally in November, following a fall in the preceding month. According to respondents, employment growth reflected business expansion plans and higher intakes of new work. Respondents that reported a decline in workforce numbers attributed this to a combination of employee retirements and resignations.

The quantity of inputs bought by manufacturers increased again in November, primarily reflecting new business wins. Some panellists also reported raising their purchasing in anticipation of future price rises. The rate of growth was the sharpest since January. That was insufficient, however, to prevent another fall in stocks of purchases, as firms utilised existing inventories amid raw material shortages. This centred on a lack of supply at suppliers and, as a result, average vendor performance deteriorated at the strongest rate since July 2008.

Shortages of inputs afforded suppliers greater scope to raise their prices in November. Consequently, average input costs increased considerably, with the rate of inflation quickening to the fourth-fastest since the start of the series in April 2004. Prices paid for cotton, grain, oil and steel were reported as having risen since October.

Manufacturers reported passing on higher input costs to customers through increased factory gate prices, which rose at a series-record rate in November. The latest increase was the fourth in as many months.

HSBC China Purchasing Managers' Index™ (PMI™)



The HSBC China Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

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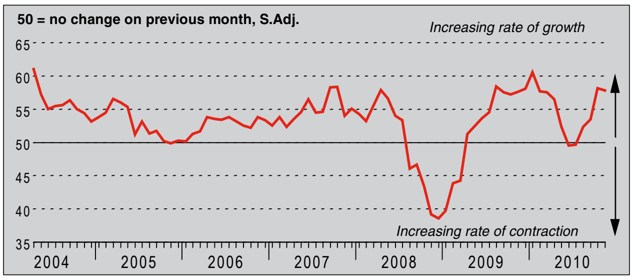
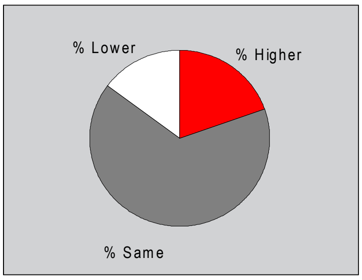
Output Index

Q. Please compare your production/output this month with the situation one month ago.

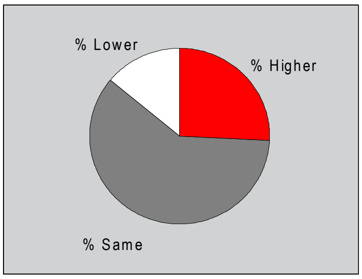




Chinese manufacturing production rose further in November, with almost one-fifth of survey respondents reporting an increase compared to one month earlier. Despite easing since October, the rate of expansion was steep, and much faster than the long-run series average. Anecdotal evidence suggested that manufacturers raised their production capacity in response to higher intakes of new business. The latest increase was the fourth in as many months.

New Orders Index

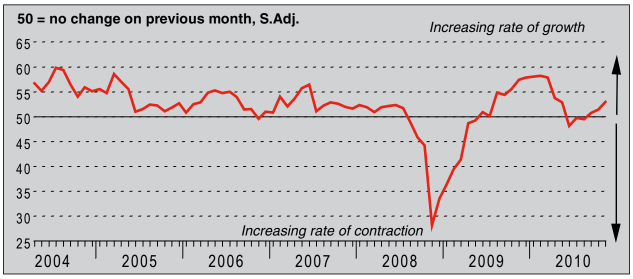
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.

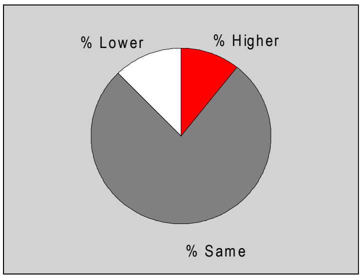


After accounting for seasonal variation, the New Orders Index climbed to an eight-month high in November, pointing to a substantial rise in new orders received by Chinese manufacturing firms. Furthermore, the rate of expansion was one of the strongest in the series history. New order levels have now risen continuously since August. Where an increase in overall new business was signalled, growth was often linked to continued strong market demand.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

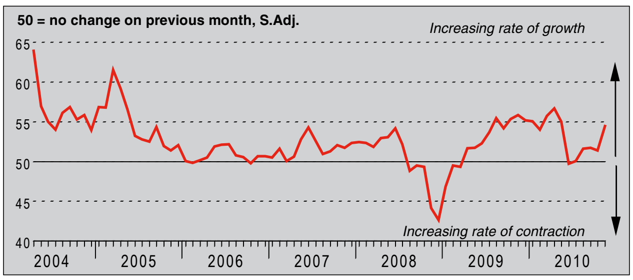


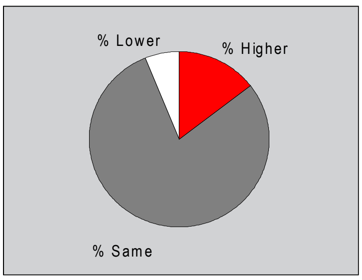


According to the latest data, new export business increased for the third successive month in November. Survey respondents that reported a rise in new export orders often linked growth to firmer demand from external sources. The rate of growth was moderate, and quickened to the fastest since April. Nonetheless, a faster increase in overall new work relative to new export orders suggested that growth was centred on the domestic market in the latest survey period.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

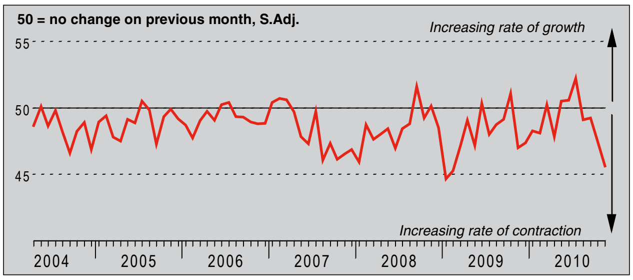


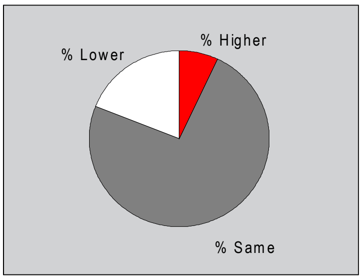


Backlogs of work in the Chinese manufacturing sector continued to rise in November. Almost 15% of the survey panel reported an increase in outstanding business since October, versus 6% that signalled a reduction. As a result, the rate of growth was solid, and quickened to the fastest since May. According to respondents, backlog accumulation reflected greater inflows of new business. Some firms also commented that raw material shortages had delayed production.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

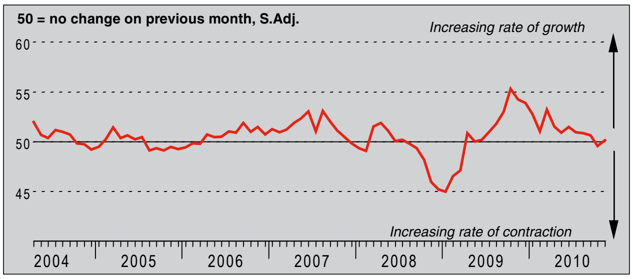


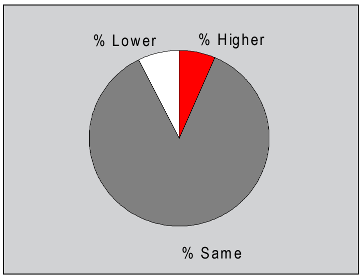


Stocks of finished goods in the Chinese manufacturing sector decreased again in November, extending the current period of decline to four months. The rate at which post-production inventories were reduced was solid, and quickened to the third-fastest in the series history. Exactly, 19% of the survey panel reported a reduction in stock levels since October, which they generally attributed to policies aimed at meeting new orders through stock depletion.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

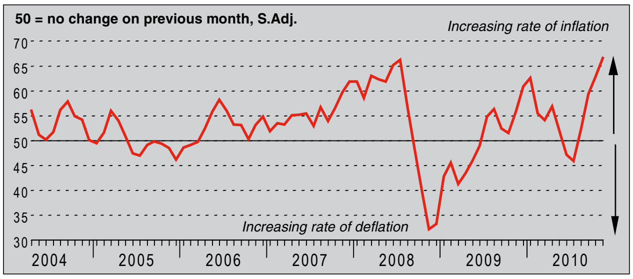


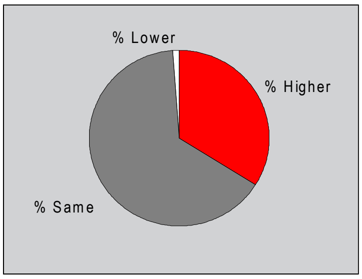


Manufacturing employment in China rose during November, following a fall in the preceding month. However, the rate of job creation was only fractional, with the vast majority of panellists (around 86%) reporting no change in workforce numbers since October. Where a rise in employment was signalled, respondents commonly linked growth to business expansion plans and, in some cases, new product lines. Manufacturers that reported a reduction in staff numbers attributed this to a combination of employee retirements and resignations.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

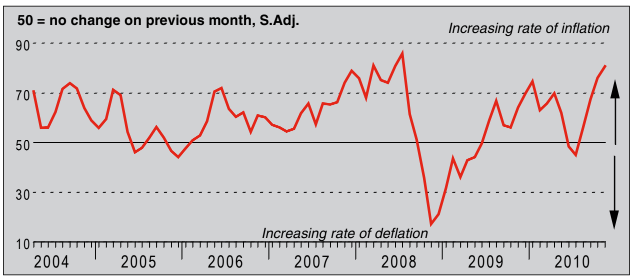


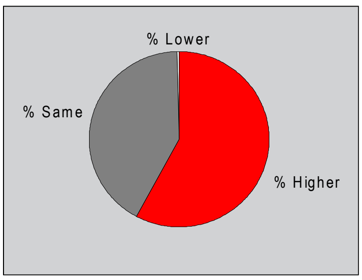


Output prices set by Chinese manufacturing firms rose in November, with the seasonally adjusted Output Prices Index posting above the neutral 50.0 threshold for the fourth month running. The index was at a level indicative of a substantial rate of inflation that was the fastest since the start of the series in April 2004. Higher charges were widely attributed to the need to rebuild operating margins in the face of sharply rising input costs.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

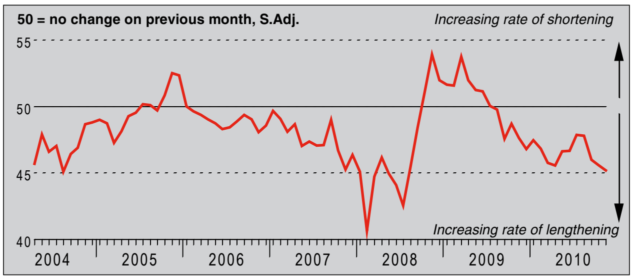


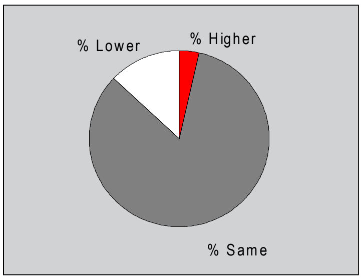


Average input costs faced by Chinese manufacturing firms rose considerably in November, with the rate of inflation quickening to a twenty-eight month high. The seasonally adjusted Input Prices Index has climbed almost thirty-six points since July, suggesting that cost pressures are increasing rapidly. Higher raw material prices were cited as the key driver of inflation, with prices paid for cotton, grain, oil and steel all reported as having risen since the preceding month.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

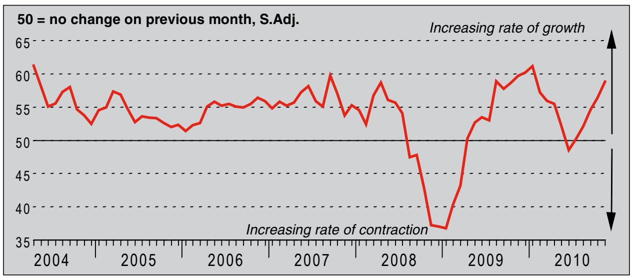


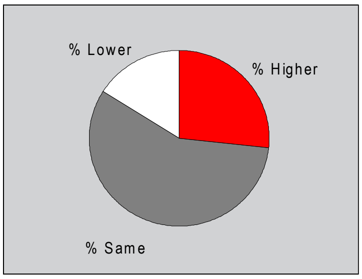


The average time taken by suppliers to deliver inputs to Chinese manufacturers lengthened in November. Exactly 13% of firms reported a deterioration in vendor performance, compared to only 4% that signalled an improvement. The rate at which delivery times lengthened was solid, and quickened to the fastest since July 2008. Longer lead times have now been recorded for sixteen months in succession. Anecdotal evidence suggested that delivery delays predominantly reflected supply shortages at vendors.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

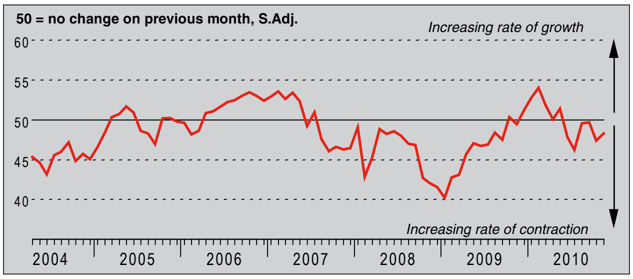


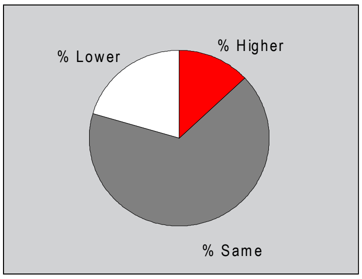


Chinese manufacturers continued to purchase items for use in production during November, with almost 27% reporting a rise in purchasing since October. This compared to 16% that signalled a reduction. As a result, the rate of growth was sharp, and accelerated to the strongest since January. Where an increase in buying activity was cited, panellists attributed growth to greater inflows of new business and a corresponding rise in production requirements. Some panellists also reported raising their purchasing in anticipation of future price rises.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





The seasonally adjusted Stocks of Purchases Index posted below the neutral level of 50.0 in November, pointing to a further decline in pre-production inventories. Nonetheless, the rate of destocking was only modest, and fractionally slower than the average for the current six-month period of decline. Survey participants mentioned utilising existing stocks in production due to higher intakes of new business and, in some cases, raw material shortages at suppliers. Where a rise in stock levels was signalled, respondents commonly linked this to increased purchasing.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 430 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.

Warning