

## HSBC China Manufacturing PMI™

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

### Summary

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. 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 overall new work, which rose at the fastest rate in eight months. New export orders also increased 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. Nonetheless, employee numbers rose only fractionally in November.

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 in the series history. 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.

### Comment

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

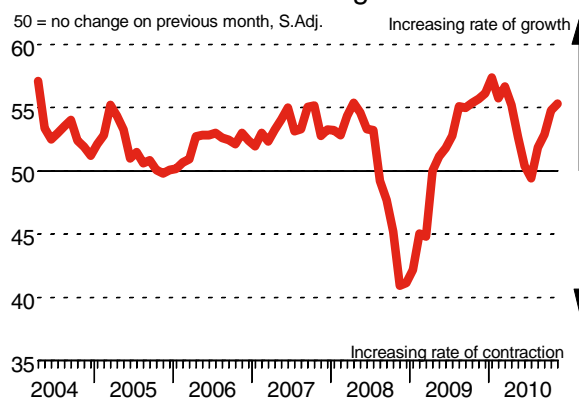
*"The stronger reading of the November Manufacturing PMI, especially the faster rise in input prices, against the backdrop of the Fed's QE2, is likely to translate into concern about inflation. We expect Beijing to step up its efforts of quantitative tightening and to hike interest rates by 25bp in the coming months to check inflation."*

### Key points

- 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.

### 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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