

HSBC China Manufacturing PMI™

Chinese manufacturing sector operating conditions continue to improve, albeit at the slowest rate in three months

Summary

December data pointed to a continued improvement of Chinese manufacturing sector operating conditions. However, overall growth of the sector lost momentum, with both output and new business rising at the slowest rates in three months. The slowdown in new order growth was insufficient to prevent a further rise in backlogs of work, which in turn prompted firms to hire additional staff on average. Considering inflation, firms continued to pass on sharply rising input costs to clients through increased output charges.

The headline seasonally adjusted HSBC Purchasing Managers Index™ (PMI™) fell to a three-month low of 54.4 in December, from 55.3 in November. Nonetheless, for Q4 as a whole, overall growth of the sector was the strongest since Q1 2010.

Manufacturing output increased steeply in December, albeit at the slowest rate in three months. Where a rise in output was signalled, panellists often linked growth to continued new business wins. The rate of expansion in new work eased since November, but remained strong in the context of historical data. Growth of new work was supported by strong underlying demand. However, data suggested that overall growth centred on the domestic market, with new export business increasing at a much slower rate than total new orders. Indeed, the rate of expansion in new export orders was only modest.

Outstanding business continued to rise in December, although the rate of growth eased since November. Further backlog accumulation predominantly reflected greater inflows of new business and, as a result, growing pressure on manufacturers' operating capacity. Consequently, firms added to their staff numbers in December, with the rate of job creation quickening to the fastest since June.

Average input prices rose further in December. Although still substantial, the rate of input cost inflation eased to the slowest in three months. Higher raw material prices continued to drive inflation in the latest survey period, with basic metals mentioned in particular. Consequently, firms continued to pass on higher costs to clients through increased output charges. Similar to the trend in input prices, the rate of output price inflation eased since November, but remained much stronger than the long-run trend.

Comment

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

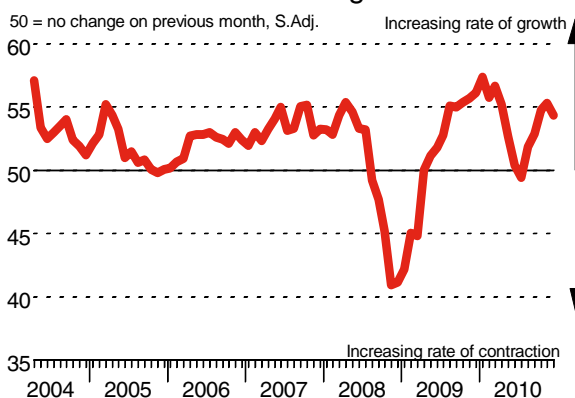
"Inflation rather than growth still remains as the top policy concern, despite the moderation in December's manufacturing PMI reading. We expect Beijing to continue to relying on quantitative tightening measures to curb inflation and counter the impact of QE2, while modest interest rate hikes are also needed to anchor inflation expectations in the coming months."

Key points

- Slower rises in output, new business and backlogs of work.
- Strongest increase in purchasing for eleven months.
- Input cost inflation eased, but remained substantial.

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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