

HSBC China Manufacturing PMI™

Output growth continues to ease from October's peak, but remains strong with domestic market a key driver of expansion

Summary

PMI survey data signalled that China's manufacturing sector started 2011 on a strong footing, with both output and new business rising steeply since December. This prompted firms to raise their input buying and allocate resources to meeting incoming new orders, with backlogs of work rising solidly, which in turn encouraged manufacturers to hire additional staff on average. Meanwhile, companies continued to pass on strong cost inflation to clients through increased output charges.

Posting 54.5, up slightly from 54.4 in December, the headline seasonally adjusted HSBC China Manufacturing Purchasing Managers' Index™ (PMI™) held relatively steady at the start of 2011, signalling a solid improvement in manufacturing sector operating conditions.

New orders rose steeply in January, with the rate of growth quickening from a month earlier, but still down on November's recent peak. Intakes of new export orders also increased in January, although the pace of expansion was much slower than that for overall new business, suggesting that growth was centred on the domestic market.

January data pointed to another robust rise in Chinese manufacturing production, reflective of stronger growth of overall new business. Nonetheless, capacity pressures continued to build at the start of 2011, with backlogs of work rising at the second-fastest rate since last May. Firms commented that resources had been switched to dealing with incoming new orders. In response to growing capacity constraints, firms continued to hire additional staff in January, although the rate of job creation was only slight.

Purchasing rose sharply in January, with panellists attributing growth to higher output requirements. Some firms also reported raising their input buying in anticipation of strong future sales. Despite this, stocks of purchases fell in January, as firms had to frequently utilise their existing inventories to accommodate for delays in the supply chain. Panellists often linked longer lead times to supply shortages at vendors.

The rate of input cost inflation eased to the slowest in four months, but remained considerable in the context of historical data. Prices paid for copper, steel and fuel were reported as having risen since December. As a result, 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 to a five-month low, but remained much stronger than the long-run series average.

Comment

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

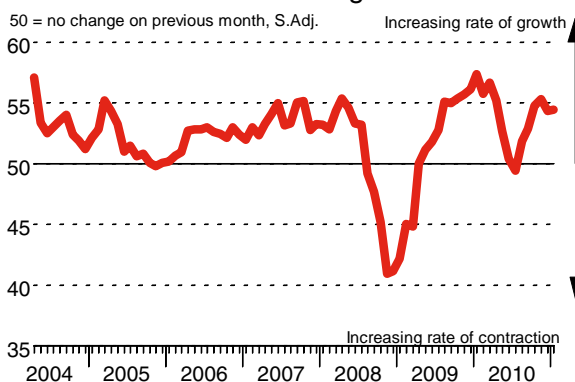
"China kick-started the New Year with another upbeat manufacturing PMI reading, following the stronger-than-expected 4Q GDP growth release. The strong growth momentum leaves room for Beijing to fully focus on checking liquidity and inflation pressure. Quantitative tightening in the form of reserve requirement ratio hikes will remain the most effective policy tools."

Key points

- New business growth quickens.
- New export business increases only modestly.
- Cost inflation remains strong, despite easing to four-month low.

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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