

HSBC China Manufacturing PMI™

Manufacturing output rose at stronger rate, but underlying growth trend remained moderate. Price pressures ease.

Summary

After adjusting for seasonal variation, the headline HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – held relatively steady in March, rising fractionally from 51.7 to 51.8, a level indicative of a moderate improvement in manufacturing sector business conditions. The index reading was below the long-run series average (52.3).

Chinese manufacturing production continued to rise in March, although the pace of expansion remained muted in the context of historical data. Output growth, which has now been signalled for eight months in a row, was much slower than observed throughout Q4 2010, but still registered an improvement on the preceding month.

The relatively subdued expansion of manufacturing output was primarily linked by respondents to a weaker rise in new business, which grew at the slowest pace in the current eight-month period of expansion. Moreover, new export business increased only slightly in March, following a fall one month earlier. New orders received from abroad have now risen in six of the past seven months.

Despite a further slowdown in total new order growth, backlogs of work continued to increase markedly, with the rate of accumulation accelerating to the most pronounced since May 2010. The latest expansion extends the current period of growth to nine months.

Employee numbers rose in March, following a marginal fall in the preceding month. Nonetheless, the rate of job creation was only slight. Where a rise in employment was signalled, respondents linked growth to higher output requirements. Manufacturers that reported a fall in staff numbers attributed this to employee retirements and resignations. Some companies reported that a shortage of available labour had made recruitment increasingly difficult over the month.

Purchasing activity rose solidly in March, although the pace of expansion was the second-slowest since August 2010, and weaker than the long-run series average. Consequently, stocks of purchases fell for a third successive month, and average vendor performance deteriorated at the slowest rate since August 2008. Where longer lead times were recorded, survey respondents cited supply shortages at vendors and, in some cases, transportation difficulties.

The rate of purchase price inflation in the manufacturing sector eased markedly since February, but remained strong nonetheless. Prices paid for copper, oil and food products were reported as having risen from one month ago. According to respondents, cost pressures emanated from domestic markets. Manufacturers raised their output prices accordingly in March, although the rate of inflation mirrored that of input costs by cooling to a seven-month low.

Comment

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

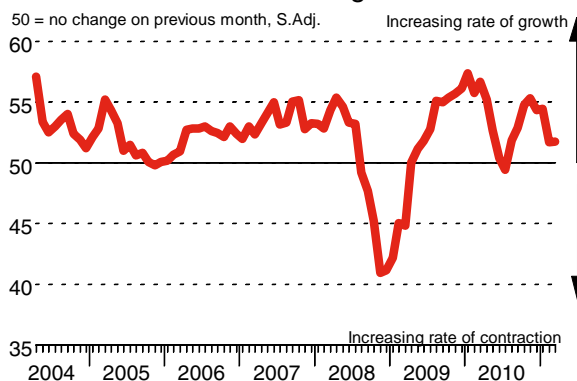
"The Final March manufacturing PMI confirmed that the pace of manufacturing expansion has stabilised after slowing in February. This implies economic growth is only moderating rather than slowing too much. More importantly, price hikes also started to slow in March. All these confirm our view that quantitative tightening is working. So as long as Beijing keeps tightening for another three to four months, inflation should start to slow meaningfully in 2H2011."

Key points

- New order growth down to eight-month low.
- Cost inflation cools to slowest since August 2010.
- Average vendor performance deteriorates, albeit at slowest rate for seven months.

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.

HSBC:

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