

HSBC China Manufacturing PMI™

Further moderation in manufacturing output growth accompanied by easing inflationary pressures in May

Summary

May survey data pointed to only modest growth of China's manufacturing sector, as both output and new orders rose at marginally slower rates. Despite this, the pace of job creation quickened to a five-month high. The overall slowdown in output growth was accompanied by an easing in inflationary pressures, with average input costs rising at the weakest rate since August 2010. As a result, the pace of inflation at the factory gate moderated for a third successive month. Meanwhile, firms reduced their holdings of pre-production goods in an attempt to mitigate against delays in the supply chain, following a further deterioration in average vendor performance.

The seasonally adjusted HSBC *Purchasing Managers' Index™ (PMI™)* dropped to a ten-month low of 51.6 in May, down from 51.8 in April, signalling only a modest improvement in manufacturing sector operating conditions.

New business increased for a tenth successive month in May, although the rate of expansion remained relatively subdued in the context of historic data. This primarily reflected subdued demand from both domestic and external markets. The latter was highlighted by a decline in new export business for the first time in three months.

Sluggish new business growth meant that additional resources were assigned to progressing existing workloads in the latest survey period. Consequently, the rate of backlog accumulation eased to the slowest since July 2010. A weaker increase in new orders also contributed to a slower rise in manufacturing production. The index measuring month-on-month movements in output dropped to a ten-month low, and to a level indicative of a lacklustre rate of expansion. Machinery maintenance and shortages of both electricity and raw materials were also cited as having restricted the overall pace of growth.

Manufacturing employment rose for the third month running in May. Despite quickening to a five-month high, the rate of job creation was only modest. Where a rise was signalled, panellists linked growth to rising workloads (new and outstanding).

Reflective of subdued production growth, the rate at which firms acquired inputs was relatively lacklustre in May. A number of manufacturing firms instead opted to utilise their stocks of purchases in an attempt to mitigate against delays in the supply chain. This was indicated by a further lengthening of lead times in May. Delivery delays were linked by panellists to raw material shortages at vendors.

The rate of input cost inflation eased to a nine-month low in May, but remained strong nonetheless. Rising raw material prices were cited as the key driver of inflation. Firms attempted to offset part of the rise in costs by increasing their prices charged. However, similar to the trend in input costs, the pace of inflation eased to the slowest since August 2010.

Comment

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

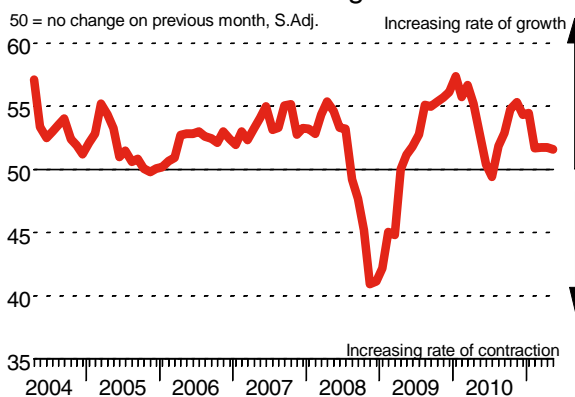
"The marginal slowdown in the final HSBC manufacturing PMI reflects cooling demand as a result of tightening and temporary inventory adjustment. This is still just a moderation rather than a meltdown in growth, so there is no need to worry about over-tightening. Beijing is likely to keep tightening mainly through reserve ratio and rate hikes in the coming months."

Key points

- Only modest increase in output signalled.
- Backlogs of work rise at weakest rate since July 2010.
- Input cost inflation eases to slowest in nine months.

Historical Overview

HSBC China Manufacturing PMI



For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China & Co-Head
of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Group Communications, China
Telephone +86 21 3888 1251
Email dianayqmao@hsbc.com.cn

Markit

Alex Hamilton, Economist
Telephone +44-1491-461-076
Email alex.hamilton@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44781 581 2162
Email caroline.lumley@markit.com

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:

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$180bn at 31 December 2010. We are headquartered in London. As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength. HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

About Markit:

Markit is a leading, global financial information services company with over 2,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

The intellectual property rights to the HSBC China Manufacturing PMI™ provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™ and PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.