

HSBC China Manufacturing PMI™

Manufacturing PMI™ signals broad stabilisation of output, but new export business decreases at fastest rate since June 2011

Summary

February data showed Chinese manufacturing output rising at a negligible rate. Intakes of new work fell for a fourth month in succession, while new export business decreased at the sharpest rate since June last year. Despite this, companies added to their staff numbers, with jobs growth the highest in nine months.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – registered 49.6 in February, up from 48.8 in the preceding month, signalling a further worsening of manufacturing sector operating conditions. The latest index reading was nonetheless consistent with a marginal pace of deterioration that was the slowest in four months.

Companies reported a continued decrease in total new order intakes during the month. However, the pace of reduction in new work was only modest. Anecdotal evidence indicated that muted demand conditions had contributed to the overall decline in new business. Additionally, new export business fell during February, following a broadly stable outcome in January, with the pace of reduction the fastest in eight months.

Lower levels of new business meant that manufacturing output was little changed over the month. The index measuring trends in factory output was nonetheless the highest in four months. Meanwhile, companies accumulated post-production goods for only the second time in the past 19 months, mainly reflecting weaker-than-expected sales.

Manufacturing employment in China increased during February. Although modest, the rate of job creation was the sharpest since May last year. Companies that reported a rise in staff numbers mentioned higher output requirements and, in some cases, business expansion plans.

Manufacturers registered a fourth successive month-on-month decline in input buying, with the rate of reduction remaining solid. The overall decrease in purchasing reflected negligible growth of factory output, as well as a preference among firms to deplete inventory holdings of pre-production goods. The latest decline in stock levels was solid, and steeper than the long-run trend for the survey. Despite reduced purchasing, companies continued to report longer vendor lead times. However, the rate of deterioration in supplier performance remained marginal.

February data showed an increase in average input costs for the first time in four months, although the rate of inflation was marginal. Higher input prices reflected increased raw material and fuel costs. Meanwhile, charges at the factory gate fell again in February, extending the

current period of decline to four months. That said, the rate of output price discounting was much slower than in the preceding month. Subdued input price pressures and strong competition for new business were cited by panellists as having contributed to the overall decline.

Comment

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

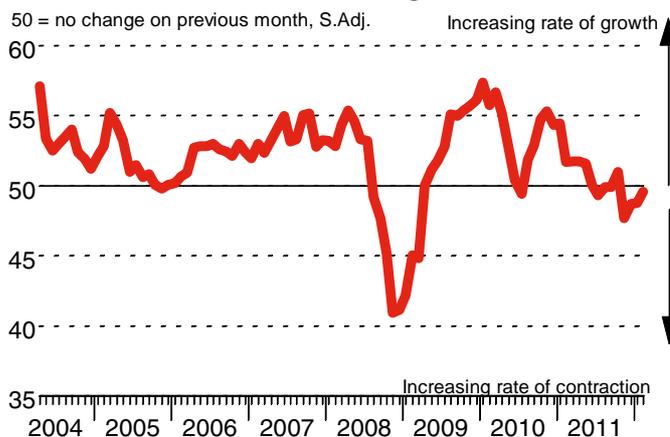
“Growth remained flat on weakening new order intakes. Despite the marginal improvement in the headline PMI, led by quickening production and a recovery of hiring after the Chinese New Year, deteriorating external demand is adding more downside risks to growth in the absence of a strong comeback in domestic demand. We expect the PBoC to step up policy easing efforts as inflation pressures recede.”

Key points

- Output growth constrained by continued demand weakness
- Jobs growth the highest in nine months
- Companies report higher average input costs for first time since last October

Historical Overview

HSBC China Manufacturing PMI



Sources: Markit, HSBC.

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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 industry contribution to Chinese GDP. 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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