

HSBC China Manufacturing PMI™

Manufacturing output rises for first time in five months

Summary

July data showed that manufacturing sector operating conditions deteriorated at a slower rate, as factory production rose – for the first time in five months – and new business decreased at a weaker pace. Inventories of inputs also fell to a weaker extent, while supplier delivery times shortened at only a marginal rate. However, manufacturing employment declined at the sharpest rate in over three years.

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 – posted 49.3 in July, up from 48.2 in June, signalling only a marginal deterioration in Chinese manufacturing sector operating conditions. Moreover, the month-on-month increase in the index was the largest in 21 months.

Manufacturing production in China increased during July, ending a four-month period of contraction. Despite reaching a nine-month high, the index measuring monthly trends in manufacturing output was at a level indicative of only a marginal rate of expansion.

Another decline in the volume of new business placed at China's goods producers was signalled by July's survey. The pace of reduction in new work was only modest, however, and the weakest in three months. New export business also decreased at a slower rate.

Latest survey findings signalled a renewed rise in work awaiting completion, although the rate of backlog accumulation was only slight. Meanwhile, companies continued to reduce their staff numbers during the month, with the pace of job shedding accelerating to the sharpest in 40 months. Manufacturers commented on employee retirements, company downsizing and the need to streamline workforce numbers in response to falling new order volumes.

Average vendor lead times shortened in July, for the third month running, although the rate of improvement in supplier performance was marginal. Meanwhile, a further decline in purchasing contributed to a reduction in stocks of pre-production goods. However, the rate of inventory depletion was the slowest in the current eight-month period of decline.

Average input costs faced by manufacturing firms decreased for the third successive month in July, mainly reflecting lower raw material prices. Companies also mentioned reduced prices paid for fuel. Despite easing slightly from one month ago, the rate of reduction in average costs remained sharp. Consequently, companies passed on reduced costs to clients through lower average tariffs. Some respondents also mentioned competitive

pressures. The pace of output price discounting was steep, albeit slightly weaker than in June.

Comment

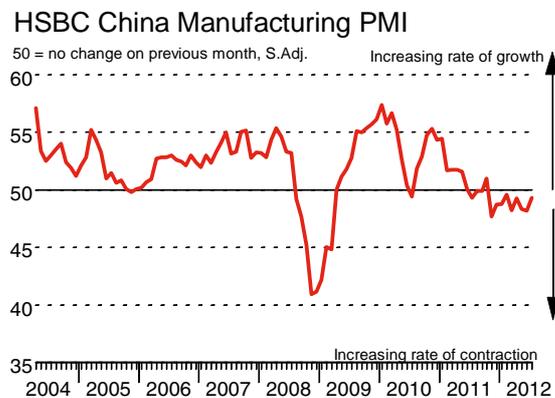
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Final manufacturing PMI confirmed only a modest improvement of manufacturing conditions thanks to the initial effect of the earlier easing measures. But this is far from inspiring, as China's growth slowdown has not been reversed meaningfully and downside pressures persist with external markets continuing to deteriorate. We still expect Beijing to step up policy easing in the coming months to support growth and employment."

Key points

- Factory output up only marginally
- Employment down at sharpest rate in 40 months
- Fall in average costs continues

Historical Overview



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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