

HSBC China Manufacturing PMI™

Operating conditions deteriorate at marginal pace in October

Summary

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 49.5 in October, up from 47.9 in September, to signal a full year of monthly deteriorations in Chinese manufacturing sector operating conditions. However, with the PMI at an eight-month high, the latest data indicated the rate of deterioration was marginal.

Manufacturing output in China contracted modestly in October, and at a slower rate than in September. New orders grew, albeit marginally, for the first time in 12 months, as nearly 20% of firms reported a higher number of sales in October. Evidence suggested that growth of new orders was due to an increasing number of new clients. However, new export orders declined for the sixth successive month, with the rate of reduction again solid (but slower than in September). Weak demand from Europe and the US was reported.

Backlogs of work fell during October for the third month in a row. The rate of backlog depletion was marginal and similar to September. Employment levels continued to fall in the latest survey period at a modest rate, with nearly 10% of panellists reporting lower staff numbers. Anecdotal evidence suggested that job losses reflected lower production requirements.

Average tariffs set by manufacturers increased in October for the first time in a year. The increase was only slight, with just under 9% of respondents noting higher output charges. Input costs faced by manufacturers increased for the first time in six months, following a five-month period of deflation. October's rate of inflation was solid, and a number of firms linked this to higher raw material costs.

Average lead times lengthened for the first time in six months, albeit marginally. Survey respondents that experienced longer delivery times attributed deteriorated supplier performance to a rise in the number of orders placed to vendors.

Purchasing activity expanded slightly during October after a five-month period of decline. Over 18% of panellists reported an increased amount of input buying, and a number of these firms suggested this was due to higher order volumes received by plants in October. Meanwhile, stocks of purchases held at manufacturers fell for the eleventh month in a row. Inventories of post-production goods were also down, and for the first time in six months. Anecdotal evidence suggested lower output and stronger-than-expected sales had led to lower warehouse stock levels.

Comment

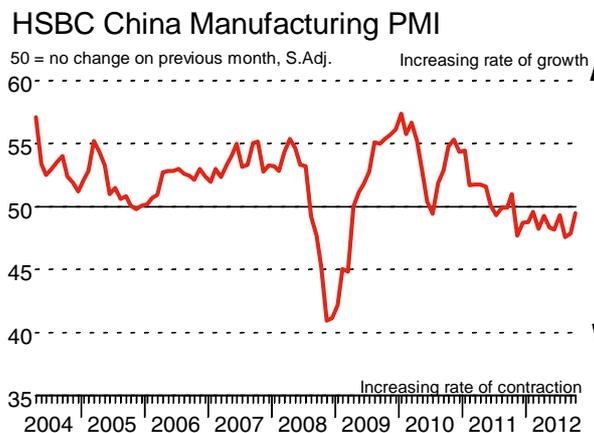
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

“October's final PMI rose to an eight-month high, implying that China's industrial activity continues to bottom out following a modest pickup last month. This is mainly driven by the increase of new orders, thanks to the filtering-through of the earlier easing measures, while exports outlook remains challenging. We expect a continuation of policy easing to further boost domestic demand and counterbalance the external weakness, leading to a gradual growth recovery in the coming quarters.”

Key points

- Modest fall in output signalled
- New orders rise for the first time in a year
- Input costs and output charges increase

Historical Overview



Sources: Markit, HSBC.

The November HSBC Flash China Manufacturing PMI is due for release 22nd November 2012.
For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page_mv/DayofReleaseDates

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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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