compiled by markit

HSBC China Manufacturing PMI™

PMI hits two-year high in January

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 52.3 in January, up from 51.5 in December, signalling a modest improvement of operating conditions in the Chinese manufacturing sector for the third successive month.

Output in the Chinese manufacturing sector also increased for the third month in a row during January. The rate of expansion accelerated from December to a marked pace. New orders rose for the fourth consecutive month, and at a solid pace that was the sharpest in two years. New export orders also increased, following a reduction in the previous month. Survey respondents suggested strengthened demand from clients in Europe and the US.

Backlogs of work increased during January, after a five-month period of reduction. Over 10% of panellists reported an increased level of work-in-hand, which was generally associated with new order growth. Employment levels rose, albeit marginally, for the second month in a row.

Suppliers' delivery times lengthened for the fourth successive month in January. Although vendor performance deteriorated at a modest pace, it was the fastest deterioration since August 2011. A number of survey respondents suggested higher demand for inputs led to longer delivery times.

Input costs faced by manufacturers rose for the fourth month in a row in January. The rate of input price inflation was solid and the quickest since September 2011. Panellists suggested inflation was linked to higher raw material costs. Meanwhile, output charges also increased for the second successive month. However, inflation remained modest overall, with less than 12% of survey respondents reporting increased output charges.

Purchasing activity continued to increase in January. The growth rate of input buying accelerated from the previous month to a solid pace, with exactly 26% of survey respondents reporting an increase. Panellists attributed the rise in purchasing to new order growth. Consequently, stocks of purchases also increased, albeit marginally, for the third month in a row.

Stocks of finished goods fell for the fourth consecutive month in January. That said, the rate of depletion was slight. Anecdotal evidence linked the reduction to increased sales.

Comment

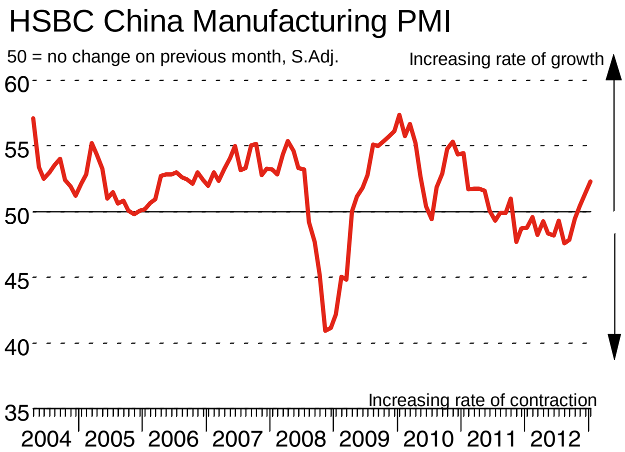
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"A higher reading of January final manufacturing PMI implies that China's manufacturing activity is gaining further steam on the back of improving domestic conditions. We see increasing signals of a sustained growth recovery in the coming months: the steady investment growth led by infrastructure projects, the improving labour market conditions boosting consumer spending, and the ongoing re-stocking process to lift production growth."

Key points

- Output expands at the quickest pace since March 2011
- Solid rise in total new orders
- Purchasing activity increases at the fastest rate in two years

Historical Overview



Sources: Markit, HSBC.

The February HSBC Flash China Manufacturing PMI is due for release 25th February 2013.

For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates

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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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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