

Word HSBC China Manufacturing PMI™

Operating conditions improve in February, albeit marginally

Summary

After adjusting for the strong seasonal factors associated with the Spring Festival, the HSBC *Purchasing Managers' Index™* (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted 50.4 in February, down from 52.3 in January, signalling a marginal strengthening of operating conditions in the Chinese manufacturing sector. The PMI has now posted above the 50.0 no-change mark for four successive months.

Output also expanded for the fourth month in a row in February. That said, the rate of expansion eased from January and was marginal. New orders rose for the fifth successive month and at a modest pace. New export orders also increased, though at a fractional rate. Anecdotal evidence suggested export growth was due to increased demand in Europe, Japan and the US.

The level of outstanding business at manufacturing plants declined in February, following a marginal increase in January. That said, the rate of depletion was only slight. Employment levels increased for the third month in a row. The rate of job creation was fractional, with a majority of panellists (nearly 89%) reporting no change.

Vendor performance improved in February. This was the first time delivery times have shortened since last September. The rate of improvement was marginal, and anecdotal evidence suggested fewer orders were being placed at vendors.

Average input costs rose for the fifth month in a row in February. Despite easing from January, the rate of inflation was marked overall, with more than one-in-ten panellists recording increased input costs. Higher raw material costs were said to be the main driver of inflation. Output charges rose at a modest pace in February. Average tariffs have now risen for the past three months, with a number of firms linking inflation to both the passing-on of higher raw material costs and increased client demand.

Input buying increased for the fifth successive month in February. However, the rate of growth eased from January and was modest, the weakest in four months. The rise in purchasing activity was generally associated with new order growth. Stocks of purchases, meanwhile, fell for the first time in four months, and at a modest pace.

Inventories of finished goods fell for the fifth month in a row in February. That said, the rate of reduction continued to be marginal, and linked to increased use of current stocks by a number of survey respondents.

Comment

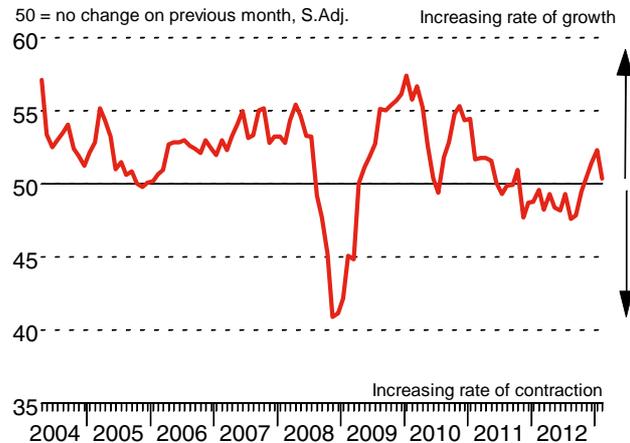
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

“The final February HSBC manufacturing PMI suggests a slower pace of expansion. But China's recovery continues on improving domestic demand conditions and the labour market. The pace of ongoing recovery is mild, implying no need for the PBoC to tighten policy any time soon.”

Key points

- Slight expansion of output
- Total new orders increase at modest pace
- Suppliers' delivery times improve for the first time since last September

Historical Overview



Sources: Markit, HSBC.

The March HSBC Flash China Manufacturing PMI is due for release 21st March 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 420 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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