

China

Flash PMI™ data show stagnation of manufacturing output in June

Flash PMI™ survey data released 23 June signalled a continued slowdown in the expansion of China's manufacturing industry, as output growth eased to a standstill and inflows of new business increased only fractionally. On the inflation front, price pressures cooled noticeably as growth of demand for raw materials eased, with both input and output prices rising at the slowest rates in almost a year.

New export orders fell at fastest rate in over two years

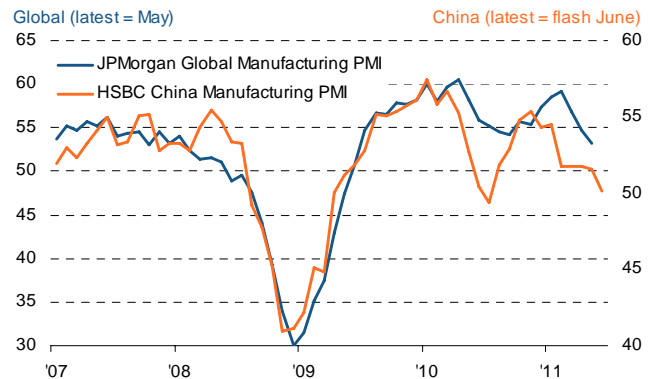
A further slowdown in China's manufacturing growth rate suggests that the current "soft patch" in global demand conditions extended into June. While a tightening of monetary conditions by the People's Bank of China is likely to be dampening domestic demand, Chinese manufacturing growth also slowed due to weaker export sales, suggesting that global trade flows continued to soften in June. The flash PMI™ New Export Orders Index fell to a 27-month low.

Easing supply side pressures provide no boost to growth

The survey provided some evidence, however, to suggest that some of the slowdown may be due to temporary factors. First, anecdotal evidence provided by respondents to the PMI™ survey suggests that power outages had a dampening effect on factory output. Looking ahead, manufacturers are likely to feel the brunt of these blackouts during the summer months, when electricity usage traditionally reaches a seasonal peak.

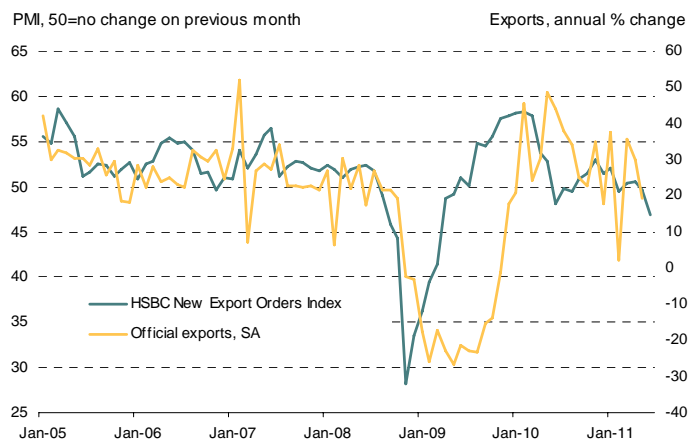
The stagnation of manufacturing production signalled by the flash PMI™ occurred despite the average time taken by vendors to deliver inputs to manufacturers lengthening at the slowest rate since October 2009. This suggests that the diminishing impact of supply chain disruptions emanating from Japan's earthquake and tsunami has so far provided no upward lift to growth, which will concern policymakers from other countries, such as the US & UK, that have attributed weak industrial production numbers to supply side

Flash HSBC Manufacturing PMI™



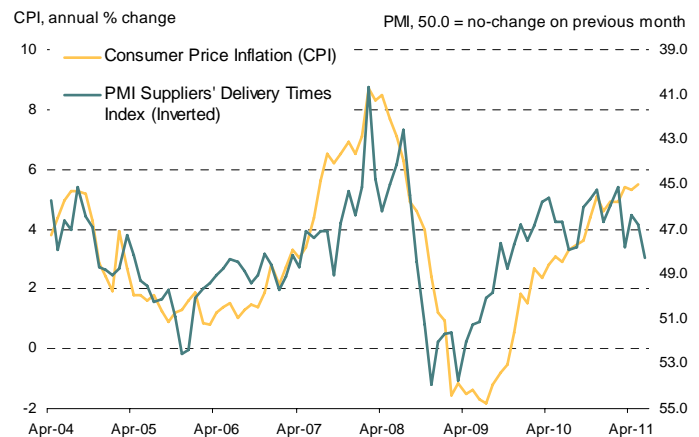
Source: Markit.

New Export Orders



Sources: Markit, NBS.

Consumer Price Inflation



Sources: Markit, NBS.

problems relating to the recent natural disaster. However, it may still be too early for the improvement in supply chains to have fed through to production.

Price pressures ease

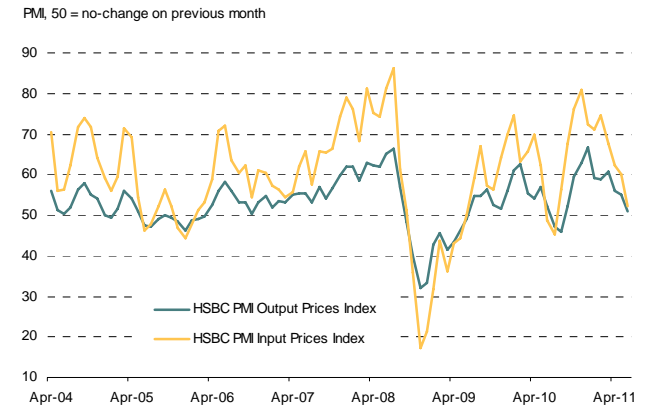
Fewer supply side constraints also reflected a moderation in purchasing growth, as manufacturers looked to use up their existing stocks of purchases in production. Consequently, a sharp slowing in growth of input buying by Chinese manufacturers has meant that suppliers have been unable to hike tariffs to the extent seen earlier in the year.

The PMI™ survey's Suppliers' Delivery Times Index has acted as a good leading indicator of consumer price inflation in China, and the recent easing in the number of supply chain delays augurs well for inflation in coming months.

These findings will be welcomed by the People's Bank of China, which as an entity has pursued a prolonged period of monetary tightening in an attempt to rein in inflation and mop up excess liquidity. The authorities have raised the reserve ratio requirement (RRR) on banks six times this year, and lifted interest rates on four separate occasions since last October, with a further hike likely before the end of June.

Despite these efforts, consumer price inflation hit an annual rate of 5.5% in May, a 34-month high. However, the combination of policy tightening and slower global growth now appear to be having the desired cooling effect on price pressures, with input cost inflation easing sharply to the slowest in 11 months during June and output prices following suit.

Price Pressures



Source: Markit.

Future policy decisions

Despite the fall in the flash PMI™, the data remain consistent with gross domestic product expanding at an annual rate of approximately 9.3%. As such, the authorities are widely expected to continue tightening monetary policy in the months ahead.

Final HSBC China Manufacturing PMI™ data are published 1 July. To find out how to receive PMI data, please contact economics@markit.com

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