

HSBC China Manufacturing PMI™

Output rises only modestly in February, as China's order growth slows. Price pressures remain substantial.

Summary

PMI survey data signalled that Chinese manufacturing operating conditions continued to improve in February, albeit at a markedly reduced rate. Output rose only modestly, as new business growth eased markedly and new export orders fell for the first time since last August. Meanwhile, companies continued to pass on strong cost inflation to clients through increased factory gate charges.

The headline seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) fell from 54.5 to a seven-month low of 51.7 in February. The latest reading was up slightly from the earlier flash estimate of 51.5, but still below the long-run trend of 52.3. The month-on-month drop in the index was one of the largest since the start of the series in April 2004.

Manufacturing production in China continued to increase during February, although the rate of expansion eased sharply to the slowest in the current seven-month period of growth. Moreover, the latest increase was only modest, and slower than the long-run series average. According to respondents, the weaker rise in output predominately reflected a slowdown in overall new business growth to a six-month low. Furthermore, intakes of new export orders fell marginally in February, thereby ending a five-month period of growth.

February data pointed to the first month-on-month decline in Chinese manufacturing employment since last October, although the pace of reduction was only marginal. Where a decline in staff numbers was signalled, respondents often linked job shedding to employee resignations.

Reduced output requirements prompted firms to scale back their purchasing in February, with growth easing substantially to its weakest in six months. As a result, stocks of purchases fell for a second successive month, with the rate of depletion quickening since January. Despite this, average vendor performance deteriorated at the joint-fastest rate in the current nineteen-month period of lengthening lead times. Panellists often linked longer delivery times to supply shortages at vendors.

Input cost inflation accelerated to a three-month high in February, with manufacturers attributing this to rising raw material and fuel costs. Prices paid for copper and steel were also reported as having risen from one month earlier. According to respondents, cost pressures emanated from domestic markets in the latest survey period. Firms continued to pass on higher costs to clients through increased output charges in February. The rate of factory gate charge inflation was substantial, and quickened to the fastest since November.

Comment

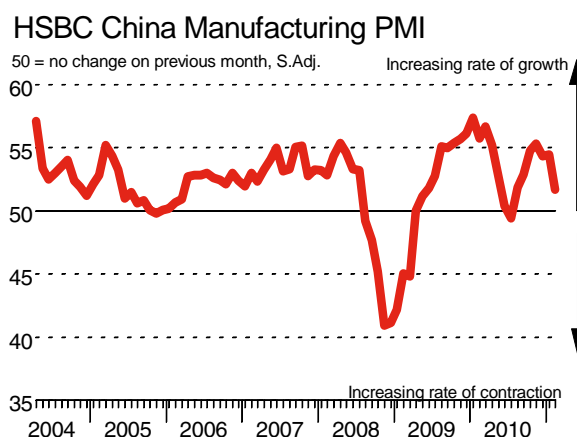
Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The Final PMI reading confirms that the growth of China's manufacturing sector is cooling a little, despite the small upward revision from the flash reading attributed to slightly better new orders. This is a positive development as slower growth is helpful to check inflation, while concerns about a slump in growth are unwarranted."

Key points

- PMI falls to seven-month low of 51.7, up slightly from the earlier flash estimate of 51.5.
- New order growth eases to slowest since last August.
- Purchase price inflation hits three-month high.

Historical Overview



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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 regional and industry contribution to Chinese Industrial Production. 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.

HSBC:

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