

# China

## Manufacturing weakness signalled as PMI slumps to 32-month low

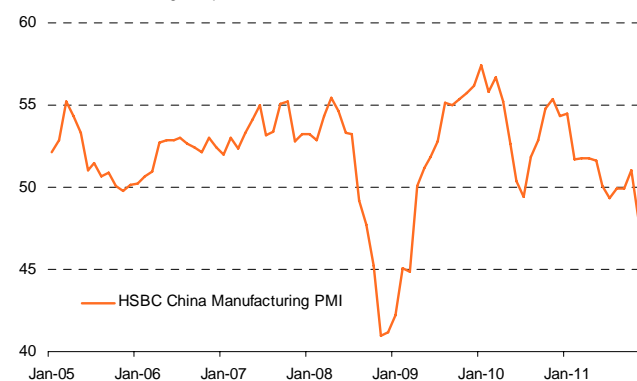
- **PMI at 32-month low in November**
- **New orders and output fall at fastest rates since March 2009**
- **PMI data show sharp declines in average costs and charges**

Flash PMI™ survey data released today showed operating conditions deteriorating in November at the steepest rate since March 2009. This was signalled by a drop in the headline PMI from 51.0 in October to 48.0, which was the largest fall in the index since November 2008. The slump in the headline PMI marks a reversal of the promising, albeit modest, rebound in manufacturing sector growth registered last month.

The survey suggests that economic growth will have slowed in the fourth quarter, and raises the likelihood of more robust policy easing by the Chinese authorities in the months ahead.

### Flash HSBC China Manufacturing PMI

PMI, SA, 50 = no change on previous month



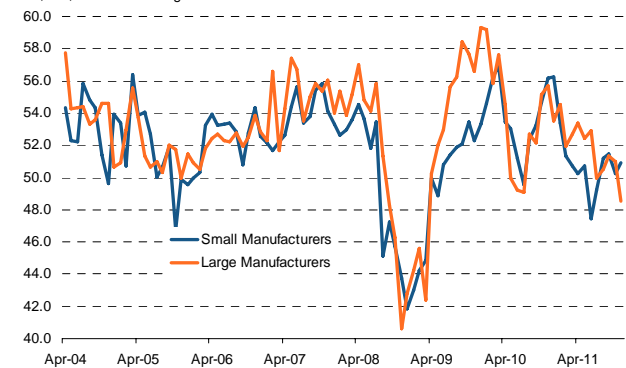
Behind the renewed contraction of the manufacturing sector were marked declines in output and new orders, with rates of contraction the steepest for 32 months in both cases. However, a further modest increase in new export orders indicated that the reduction in overall new orders primarily reflected renewed weakness in demand from domestic rather than export markets.

### Large manufacturers see output and new orders slump

Looking at the breakdown by company size, large manufacturers recorded a deterioration in operating conditions. In contrast, small companies registered an improvement in growth, perhaps in response to government policies aimed at tackling the credit squeeze facing SMEs. The performance of small and large manufacturers in China has followed a similar trend throughout the survey history, with two notable exceptions. First, large companies appear to have benefitted more than smaller firms from the 2008-2009 fiscal stimulus package. Second, small manufacturers felt the brunt of the authorities' attempts to reign in liquidity over the three-quarter period starting Q4 2010.

### Company size

PMI, SA, 50.0 = no change



### Inflation worries ebb

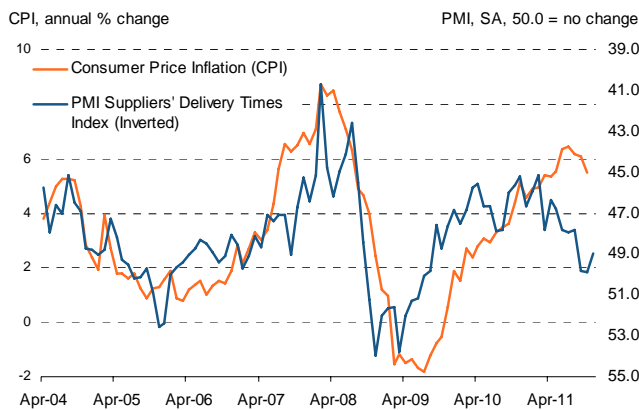
On a brighter note, the slowdown has been accompanied by a welcome easing in manufacturing price pressures, with companies reporting a fall in average purchasing costs for the first time in 16 months. The fall in prices was the largest since April 2009, and in contrast to the surging rates of cost inflation recorded at the start of the year.

The marked easing in industrial price pressures reflects two trends in particular. First, commodity prices have fallen back from peaks seen earlier in 2011, as investors continue to reduce their exposure to

commodities amid concerns surrounding global growth prospects.

Second, supply chain pressures have eased as a result of the reduced buying of inputs by manufacturers, with the incidence of delivery delays currently running at one of the lowest seen throughout much of the past two years. Consequently, suppliers have been unable to hike tariffs to the extent seen in early 2011.

**Supply side pressures and inflation**

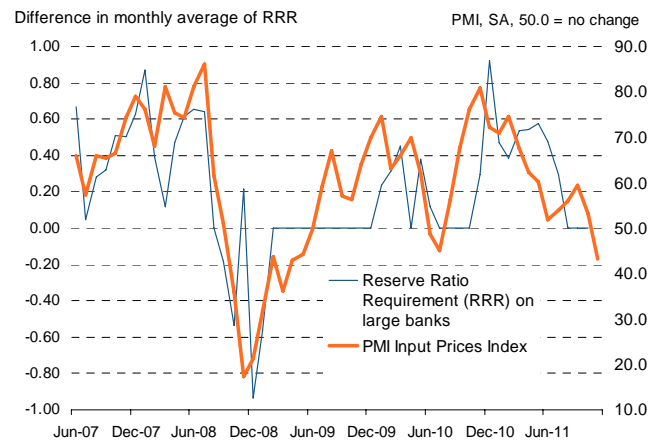


In a sign that manufacturers are starting to pass cost reductions onto clients, output charges fell for the first time in 16 months in November, with the relevant PMI index posting its largest month-on-month drop since the start of the series in April 2004. The easing in the PMI price data adds to growing evidence that consumer price inflation will continue to moderate in the coming months.

**More policy easing on the cards?**

The underlying weakness in the PMI data raises the spectre of growth worries outweighing the authorities' inflation concerns. With PMI data signalling a further easing in price pressures, scope may be growing for the Chinese authorities to loosen policy if conditions continue to deteriorate in China and in key export markets such as the Eurozone.

**China's monetary cycle**



All sources: Markit, HSBC, NBS, People's Bank of China.

Final HSBC China Manufacturing PMI data are published 1 December. To find out how to receive PMI data, please contact [economics@markit.com](mailto:economics@markit.com). For extra insight into the PMIs follow us on Twitter <http://twitter.com/MarkitEconomics>

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