HSBC *Purchasing Managers' Index*™ Press Release

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# HSBC China Manufacturing PMI™

September data signal continued stagnation of China's manufacturing sector

## Summary


The stagnation of China's manufacturing sector continued in September, with output growth constrained by lacklustre demand from both domestic and external clients. Growth of purchasing and outstanding business softened as a result, while stocks of finished goods fell for the fourteenth month in succession. On the price front, average input costs rose at the fastest rate in four months. Output charge inflation quickened accordingly.


After adjusting for seasonal variation, the *HSBC Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – held steady at 49.9 in September, signalling a negligible rate of deterioration in manufacturing sector operating conditions. Moreover, the index averaged its lowest quarterly reading since Q1 2009.

Manufacturing production in China continued to rise during September. However, for the second month in succession, the rate of output growth was only fractional. Panellists commonly linked the subdued increase in production to fewer intakes of incoming new business.

Respondents indicated that muted demand conditions had contributed to the decline in overall new business, which was the second in as many months. However, the pace of reduction in new orders was only marginal. Similarly, new export business at manufacturers fell at a negligible rate. Where a reduction in foreign order levels was recorded, this was commonly linked to sluggish demand from external clients.

Reduced levels of new orders led to a moderation in outstanding business growth during September, with the latest increase the slowest in 14 months. Meanwhile, staffing levels decreased fractionally, with panellists attributing job shedding to employee resignations, retirements and, in some cases, company downsizing. Manufacturers that added to their workforce numbers mentioned business expansion plans.

Growth of input buying eased to a marginal rate during September, mainly reflecting a stagnation of manufacturing output. Consequently, the rate at which supplier performance deteriorated eased to the joint-slowest in the current 26-month period of longer lead times. Stocks of purchases decreased again in September, extending the current period of decline to 16 successive months. However, the rate of stock depletion eased to the weakest since January.

Average input costs rose sharply in September, with the rate of inflation quickening to a four-month high. Moreover, the latest increase was only slightly slower than the long-run series average. Panellists cited higher raw material prices as the key driver of inflation. Manufacturers continued to pass on increased costs to clients through higher average tariffs. The rate of output price inflation was solid, but much slower than that seen for input prices.

## Comment

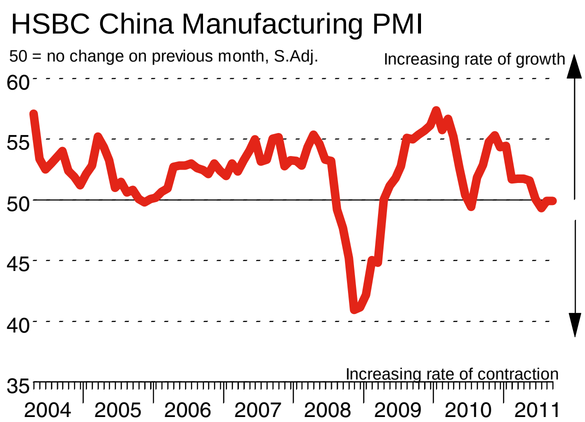
Commenting on the China Manufacturing *PMI™* survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"September final PMI still stays below 50, but shows some signs of stabilising. This implies that although the lagged effects of credit tightening will continue to cool industrial activity in the months ahead, there is little need to worry about a sharp slowdown. Despite the global slowdown, we expect China's economic growth to hold up at around 8.5-9% in the coming years."*

## Key points

- Marginal rise in manufacturing output recorded
- New export business declines for fifth month in succession
- Input cost inflation hits four-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 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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