

China

PMI™ signals renewed growth of China's manufacturing sector

- **PMI™ paints brighter picture for fourth quarter growth**
- **New orders, exports, output and purchasing all rise**
- **Cost pressures ease**

Flash HSBC PMI™ data, compiled by Markit, showed Chinese manufacturing output increasing at the fastest rate in six months amid signs of improved demand for Chinese manufactured goods. Growth of new export orders was the strongest for almost a year, while overall new orders rose for the first time since July. In fact, all five of the indexes¹ used to compile the PMI index reading contributed to the rise in the headline number, which climbed from 49.9 to a five-month high of 51.1 after adjusting for seasonal factors.

The generally positive PMI survey findings, coupled with stronger than expected industrial production and retail sales statistics for September, add to signs that economic growth in the world's second-largest economy is not heading for a hard landing.

Flash HSBC China Manufacturing PMI

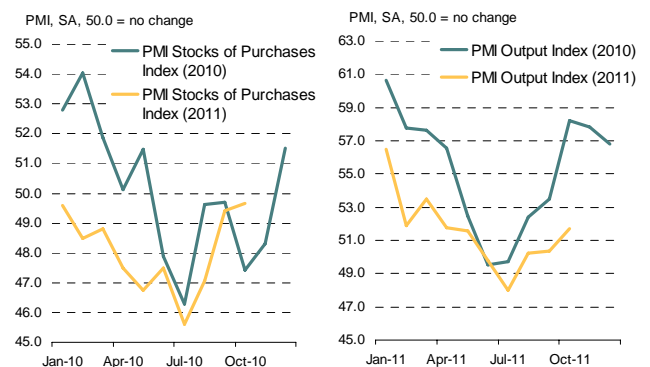
PMI, SA, 50 = no change on previous month



Reflecting higher output requirements, manufacturers raised their purchases of raw material and semi-

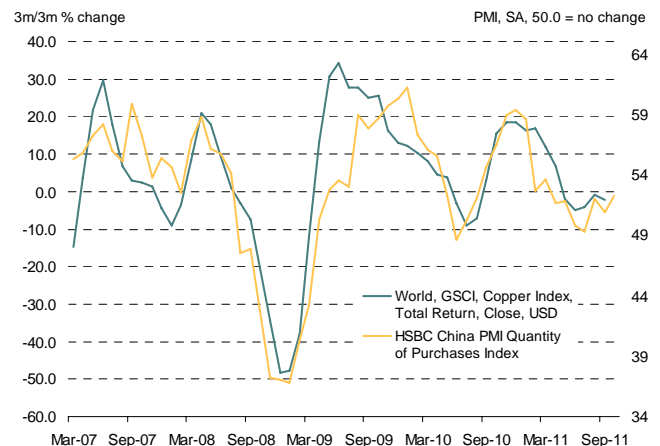
manufactured goods in October, with growth of input buying reaching a seven-month high. Stocks of inputs fell at the weakest rate seen so far this year, as increasing numbers of firms started to rebuild inventories after a summer of deliberate stock depletion. A similar inventory cycle was signalled by PMI data last year.

Inventory cycle



In both cases, manufacturers were seen to be running down pre-production inventories in response to falling commodity prices. A period of stock accumulation at manufacturers would help support growth in the fourth quarter.

Commodity prices

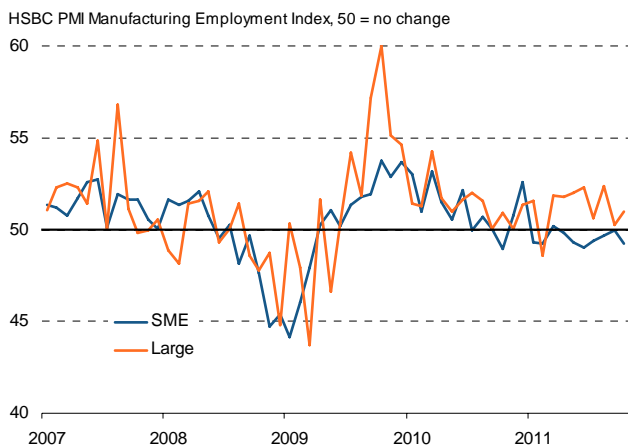


¹ The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Employment remains stagnant

Meanwhile, in a continuation of the trend observed over the past five months, manufacturing employment remained stagnant in October. There were divergences by company size. Large manufacturing firms recorded another increase in headcounts, while SMEs shed staff for the sixth time in the past seven months.

SMEs reducing staff numbers

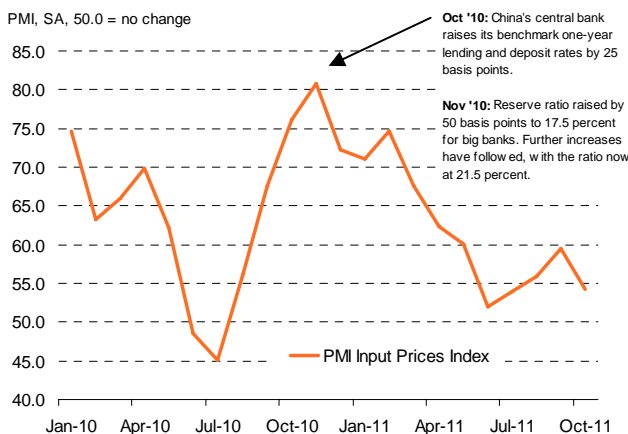


The divergence suggests that smaller manufacturers are wary of hiring in the face of higher labour costs and financing difficulties emanating from policies aimed at curtailing bank lending.

Gauging China's monetary thinking

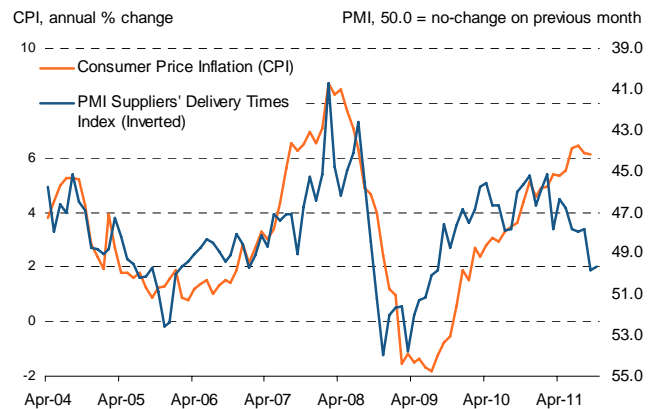
On the price front, PMI data showed both selling prices and input costs rising at historically subdued rates in October. This mainly reflects lower commodity prices on global markets, but persistent monetary tightening is also likely to have played a role in suppressing both industrial and consumer price pressures.

Monetary tightening and easing price pressures



The PMI Suppliers' Delivery Times Index, which has acted as a good leading indicator of consumer price inflation in China to date, is also consistent with an easing in the headline rate of inflation in the coming months. Overall, this suggests that tighter policy is having the desired cooling effect and that the authorities will hold fire on further monetary tightening towards year end.

Consumer price inflation



On the other hand, there is still some scope for further monetary action, as consumer price inflation remains much higher than the authorities' 4.0% target, despite easing to a four-month low of 6.1% in September. The likelihood of renewed tightening is reliant on an upturn in external demand and a stabilisation of global economic conditions. In this respect, if the improvement in manufacturing sector growth signalled by the flash PMI, especially the renewed expansion of exports, can be sustained into the fourth quarter, then this could sway the hand of policy makers at the People's Bank of China in favour of tighter policy.

All sources: Markit, HSBC, NBS, GSCI.

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

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