

HSBC China Manufacturing PMI™

Manufacturing sector operating conditions deteriorate for first time in a year

Summary

PMI survey data signalled that Chinese manufacturing production continued to fall in July, as total new order growth eased to near-stagnation amid reports of lacklustre global demand. Purchasing activity fell for a second successive month as a result, which in turn contributed to a steeper decline in stocks of pre-production goods. Meanwhile, input cost inflation accelerated, but remained subdued in the context of historic data. Consequently, manufacturers raised their factory gate charges only marginally in the latest survey period.

At 49.3, down from 50.1 in June, the seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – signalled a deterioration in manufacturing sector operating conditions for the first time in a year. Although at a level indicative of only a marginal rate of contraction, the index reading was the lowest since March 2009.

The rate of new business growth in China's manufacturing sector eased to near-stagnation during July, mainly reflecting a continued softening of underlying market demand. Moreover, new export orders fell for a third month in succession, albeit at a slower rate than in the preceding month.

The near-stagnation of new business contributed to a second successive monthly decline in manufacturing production during July. Machinery maintenance and shortages of both electricity and raw materials were also mentioned by a number of panellists. Although only modest, the rate of contraction was the sharpest since March 2009.

Purchasing activity in the Chinese manufacturing sector fell for a second successive month in response to lower output requirements. As a result, stocks of purchases fell at the fastest rate since March 2009, and average vendor performance deteriorated at the slowest rate in 21 months. Where longer lead times were recorded, survey respondents cited supply shortages at vendors. There were also reports of tight credit conditions.

Staff numbers in the Chinese manufacturing sector fell for a second successive month during July. Although only marginal, the rate of decline was the steepest in five months. Anecdotal evidence suggested that reduced employment predominantly reflected the weak trend in new business and, in some cases, employee retirements.

On the prices front, manufacturers indicated that cost inflation remained muted in July, despite rising slightly since the preceding month. Companies that reported an increase in cost burdens generally commented on higher raw material prices. Meanwhile, prices charged by manufacturers for their final product rose only marginally, with the rate of inflation easing to the slowest in the current one-year period of higher average tariffs.

Comment

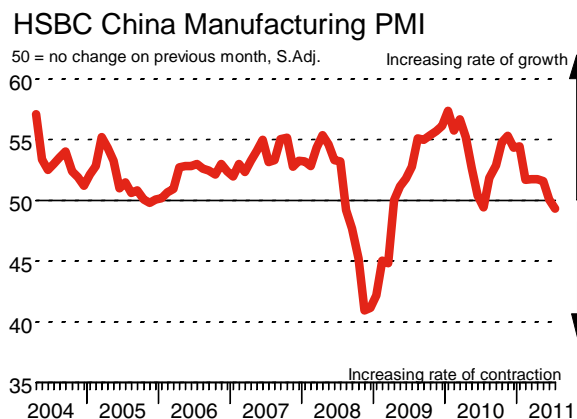
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The final reading of the HSBC China manufacturing PMI printed marginally below 50, albeit better than the flash reading. This has confirmed the slowing growth momentum of the manufacturing sector against the backdrop of sustained tightening and lacklustre external demand. That said, the current level of the PMI is still consistent with a 12-13% growth rate of industrial production, which leaves room for Beijing to keep tightening policy through 3Q to check inflation."

Key points

- Modest decline in manufacturing production
- New business growth eases to only marginal rate
- Slowest rate of lead time lengthening for 21 months

Historical Overview



For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China & Co-Head
of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Group Communications, China
Telephone +86 21 3888 1251
Email dianayqmao@hsbc.com.cn

Markit

Alex Hamilton, Economist
Telephone +44-1491-461-076
Email alex.hamilton@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7064-6283
Mobile +44-782-789-1072
Email rachel.harling@markit.com

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*TM (*PMI*TM) 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:

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$180bn at 31 December 2010. We are headquartered in London. As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength. HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

About Markit:

Markit is a leading, global financial information services company with over 2,200 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

*Purchasing Managers' Index*TM (*PMI*TM) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markiteconomics.com

The intellectual property rights to the HSBC China Manufacturing PMITM provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*TM and *PMI*TM are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.