

China manufacturing

Manufacturing PMI hits six-month high in September

- Flash manufacturing PMI rises for second month running to 51.2 in September
- Export order book growth revives
- Job shedding eases

China's manufacturing economy showed a return to growth in September, according to the HSBC flash PMI produced by Markit. The PMI rose for a second successive month, rising further from July's near post-crisis low of 47.7, up from 50.1 in August to 51.2. The latest reading signalled the strongest monthly improvement in business conditions since March.

The improvement in the PMI takes the average reading for the third quarter to 49.6, up from an average of 49.2 in the second quarter. Improving conditions fuels hopes that the rate of economic growth will have picked up from the disappointing [7.5% pace seen in the second quarter](#), which was one of the weakest seen since the height of the financial crisis in 2009.

Moreover, with manufacturing gaining momentum towards the end of the third quarter, and especially with order book growth picking up in September, the survey raises the likelihood of economic growth accelerating in the fourth quarter.

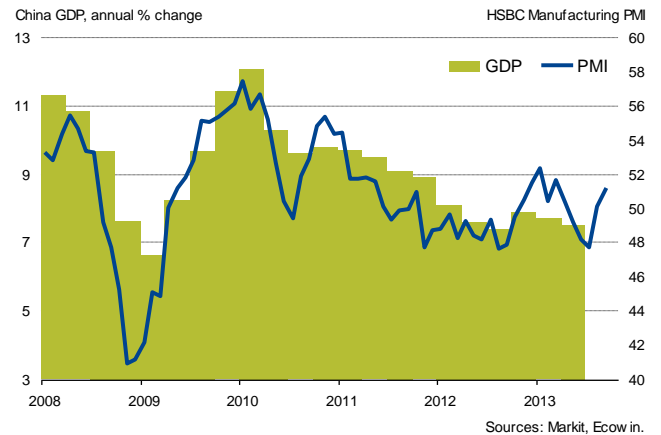
The upturn in manufacturing follows signs of growth in the country's services economy also picking up, with the services PMI hitting a five-month high in August.

The survey data remain consistent with only sluggish growth by comparison with the double-digit pace of economic expansion seen prior to the crisis, though suggests that the government's 2013 growth target of 7.5% could be exceeded by a small margin.

Export revival

The details of the September survey showed manufacturing output growing for a second successive month, rising at the fastest rate since April. Order book growth also improved, with new orders showing the largest monthly rise since March. Exports contributed to the lift in order books. New export orders rose for the first time since March, contrasting with the marked falls seen in recent months.

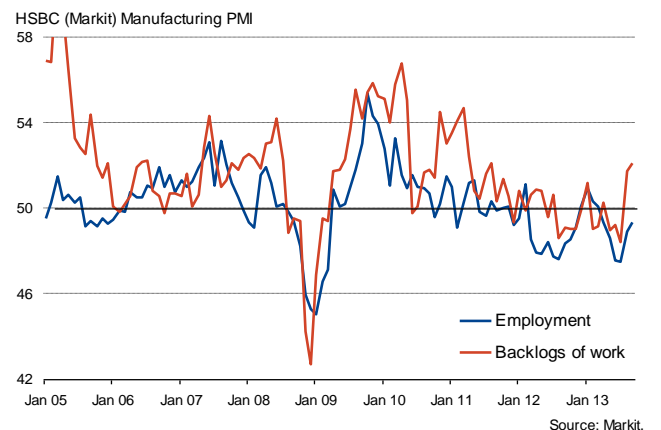
PMI and GDP compared



Exports



Employment and order book backlogs



Job shedding eases

Growth of new orders exceeded that of production, meaning backlogs of work rose. Backlogs increased to the greatest extent for two years, up for a second month after falling in the three months to July.

Increasing numbers of firms responded to the improvement in demand and resulting lack of capacity by taking on staff. Although employment continued to fall for the sixth month in a row, as many other firms continued to focus on cost reduction, the rate of job losses slowed for the second successive month to signal only a marginal drop in workforce numbers.

In another sign of further production growth in coming months, manufacturers also increased their purchases of raw materials to the greatest extent for six months, driving the largest increase in stock levels since December 2010.

Oil prices push up costs

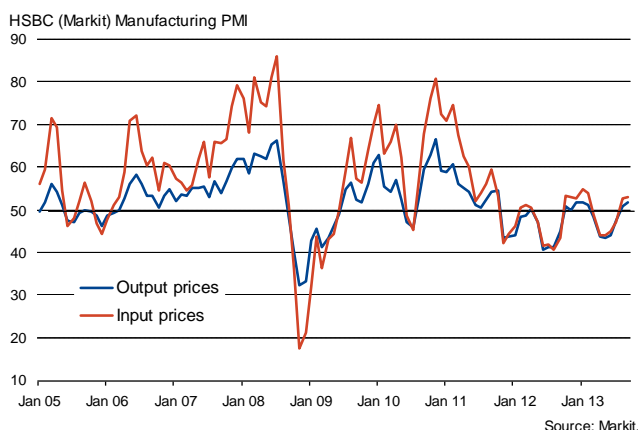
Higher oil prices continued to feed through to the manufacturing sector. Input costs rose for a second successive month, having fallen in the prior five months, increasing at the fastest rate since February. However, the rate of increase remained muted, reflecting lower prices for other commodities and ongoing intense competition among suppliers.

Output prices likewise rose, with the rate of inflation running at the highest since December. However, like input costs, the rate of increase remained muted.

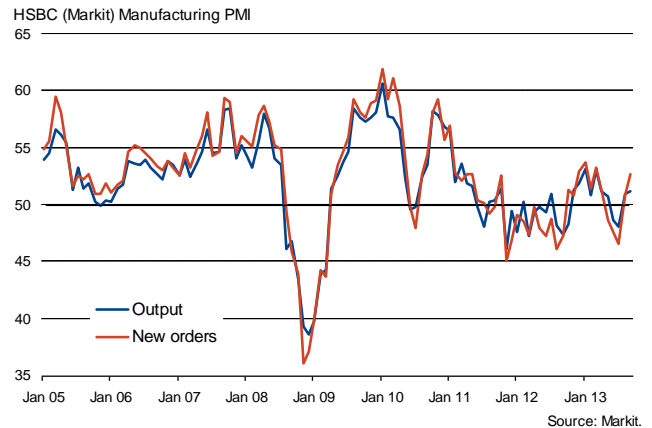
However, the suppliers' delivery times index – a reliable gauge of inflationary pressures – signalled a modest uptick in supply chain delays which, if sustained, is consistent with consumer price inflation picking up slightly in coming months (see chart).

The flash PMI is based on approximately 85% of usual monthly replies and provides an accurate indication of the final results, published on 30 September.

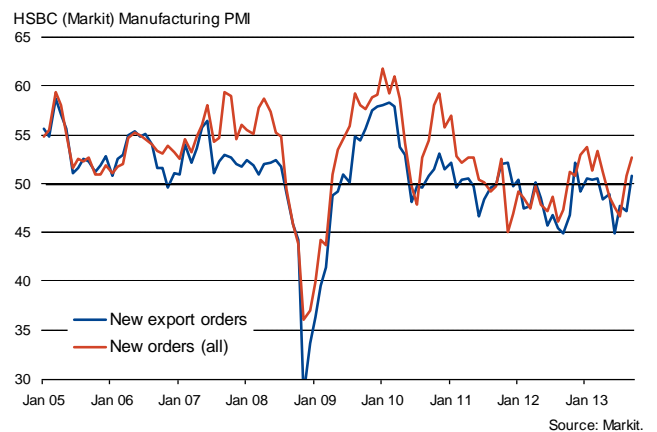
Prices



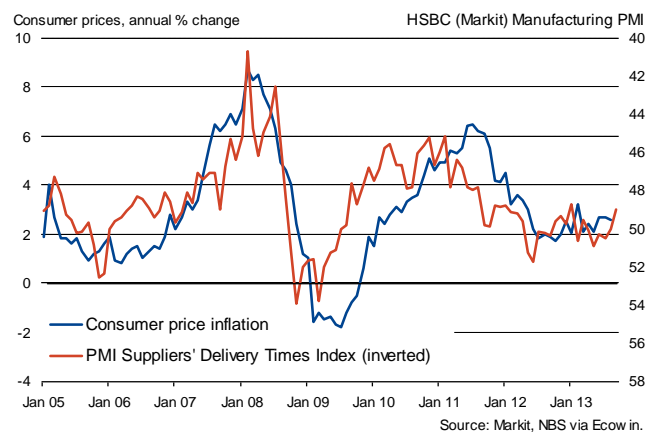
Orders and output



Orders (total) and export orders



Suppliers' delivery times (a measure of supply-chain price pressures) v. consumer price inflation



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