HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC China Manufacturing PMI™

Manufacturing PMI strengthens to 18-month high in July

Summary

Latest data signalled a second successive monthly improvement in overall operating conditions faced by Chinese manufacturers in July. Output and total new orders both rose at the strongest rates since March 2013, while new export work increased at the second-fastest pace in over three-and-a-half years. In response to stronger inflows of new work, purchasing activity rose solidly while job shedding eased for the second successive month and was only slight. Meanwhile, input price inflation accelerated to the strongest since last November.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted at 51.7 in July, down slightly from the earlier flash reading and up from 50.7 in June, and signalled a further improvement in the health of China's manufacturing sector. Furthermore, it was the strongest rate of improvement for a year-and-a-half.

Chinese manufacturers signalled a second consecutive monthly rise in production during July. The rate of output growth accelerated from June to the quickest in 16 months. A number of panellists suggested that production rose in line with greater volumes of new work, which was highlighted by a solid increase in total new business placed at Chinese goods producers. New work from abroad also rose at a faster pace in July, with the latest expansion of new export order books the second-strongest in 44 months.

Purchasing activity increased for the third month running in July. Furthermore, the rate of increase accelerated to the fastest since last October. Anecdotal evidence suggested that input buying rose in line with stronger inflows of new work and subsequent plans to raise productive capacity. As a result, stocks of purchases increased, albeit marginally, following no change in June.

Encouragingly, job shedding at Chinese manufacturing companies eased in July, with the latest fall in workforce numbers the weakest since March. Meanwhile, capacity pressures persisted, as signalled by a second successive monthly increase in backlogs of work. That said, the rate of accumulation was similar to that recorded in June and only slight.

Latest survey data pointed to the fastest rise in average cost burdens since last November in July. Companies partly passed on their higher cost burdens to clients by raising their output charges slightly over the month.

Comment

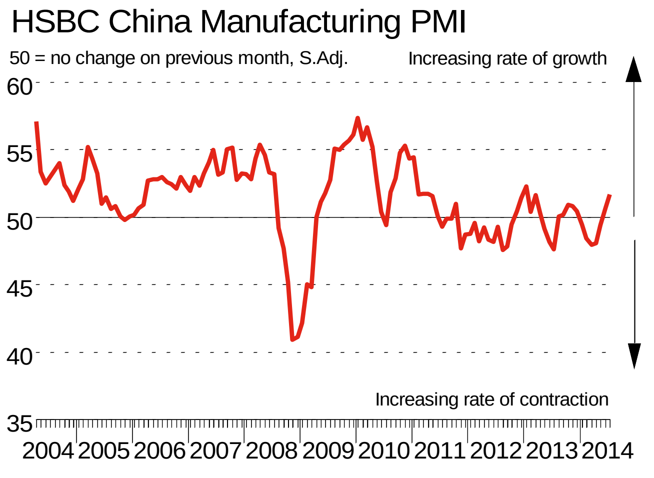
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The HSBC China Manufacturing PMI rose to 51.7 in the final reading for July, the highest since early 2013. This is slightly lower than the flash reading released earlier, as several sub-indices saw small downward revisions. Nevertheless, the economy is improving sequentially and registered across-the-board improvement compared to June. Policy makers are continuing with targeted easing in recent weeks and we expect the cumulative impact of these measures to filter through in the next few months and help consolidate the recovery."

Key points

- Output and new orders both increase at faster rates
- New export orders rise at second-quickest rate since November 2010
- Strongest expansion of purchasing activity for nine months

Historical Overview



Sources: Markit, HSBC.

The August HSBC Flash China Manufacturing PMI is due for release 21st August 2014.

For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates

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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 420 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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About PMI:

Purchasing Managers' Index™ (PMI™) 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.markit.com/economics