Markit Economic Research
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China

PMI signals return to growth of manufacturing economy

- **Manufacturing PMI™ hits seven-month high**
- **Signs of revival in domestic demand**
- **Employment continues to fall, but pace of job shedding eases**
- **Inflationary pressures remain subdued**

Worries that China's economy is facing a so-called 'hard-landing' will be alleviated as the manufacturing sector returned to growth in June.

The manufacturing PMI, produced by Markit for HSBC, rose from 49.4 in May to a seven-month high of 50.8 in June, according to the flash reading, which is based on approximately 85% of usual monthly replies. The improvement will also lift hopes that the government may meet its 7.5% growth target for 2014.

At 49.4, the average PMI reading for the second quarter is up from 48.7 in the first quarter, suggesting the pace of economic growth will have accelerated after sliding to an annualised rate of 7.4% in the first three months of the year.

In breaking above the 50 no change level, the June PMI reading was especially significant in signalling the first improvement in manufacturing conditions for six months.

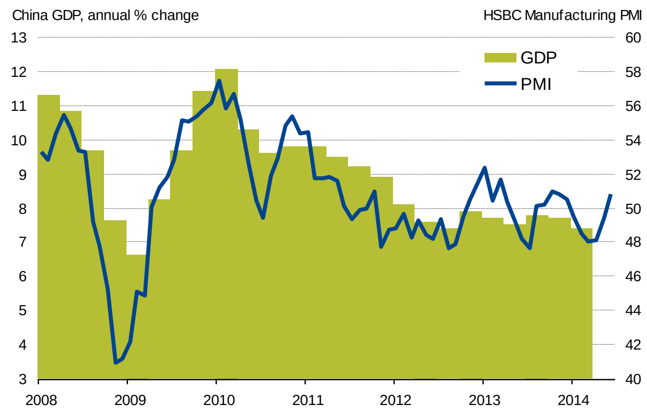
Rising domestic demand drives production higher

Output grew for the first time since January, showing the largest monthly rise since November. The survey's output index has risen to a level broadly consistent with industrial production growing at a quarterly rate of 1.0% in June.

The June survey also saw an easing in the rate of job losses, as firms reported a brightening of the business outlook. The PMI survey's Employment Index has signalled falling payroll counts in each month since April 2013 with the sole exception of a marginal increase last October.

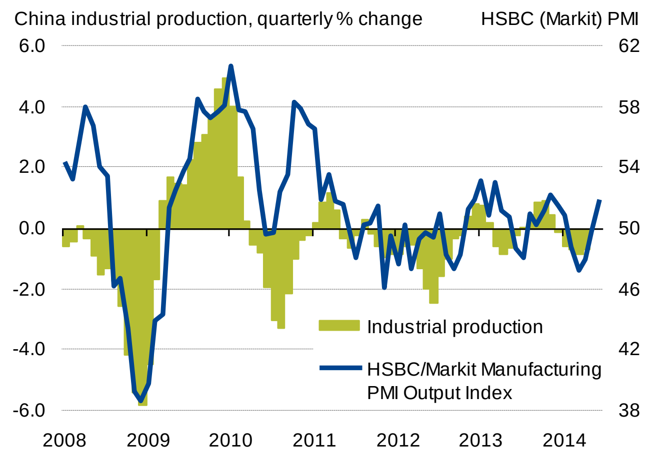
Driving the turn-around in output and the easing in the pace of job cutting was an upturn in new orders, which

Economic growth and the manufacturing PMI



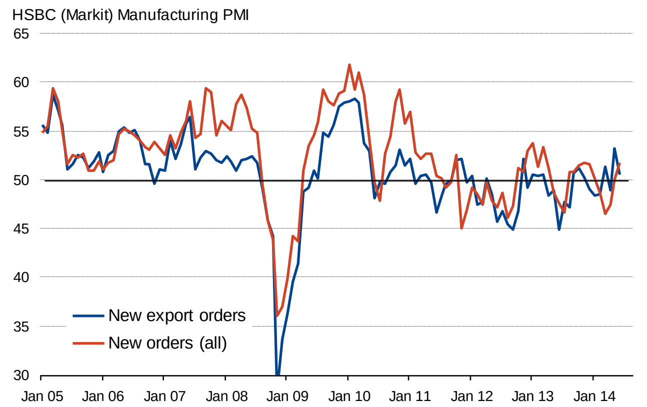
Sources: Markit, Ecowin.

Industrial production



Sources: Markit, NBS (via Ecowin).

Order books



Source: Markit.

rose for the first time since January and registered the strongest monthly increase since March 2013.

In a sign that recent efforts by the Chinese authorities to stimulate the economy are starting to pay off, the latest upturn in new orders was driven predominantly by domestic demand, with new export orders growing only very modestly. By comparison, a stabilisation of the overall order book situation in May had been driven entirely by stronger foreign sales.

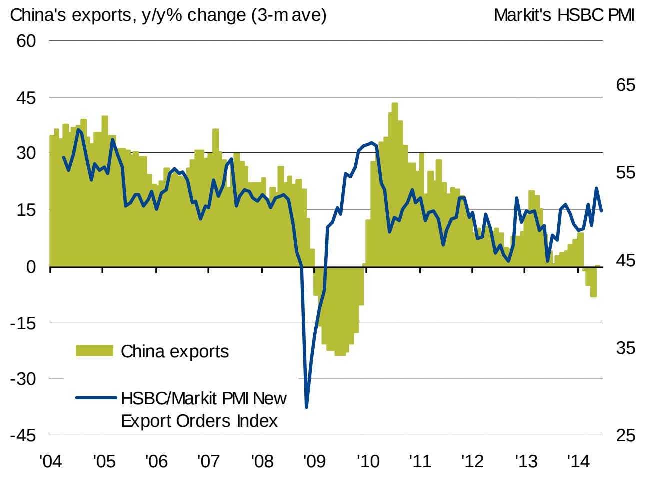
In an encouraging sign that output will continue to expand in July, firms reported that, in many cases, stronger than expected sales had depleted stocks of finished goods. Inventories fell at the fastest rate since September 2011 as a result. The ratio of new orders to inventories – a useful guide to future production trend – rose to its highest since the start of last year.

Weak price trends

The amount of goods purchased for use in production by manufacturers rose for the second month running and, though modest, signalled the strongest increase since December. With demand for inputs picking up, suppliers were able to charge more for their goods for the first time since December, though again the increase was only very modest. Despite seeing input costs rise, many manufacturers still reported the need to cut their prices due to intense competition. Average selling prices fell marginally as a result.

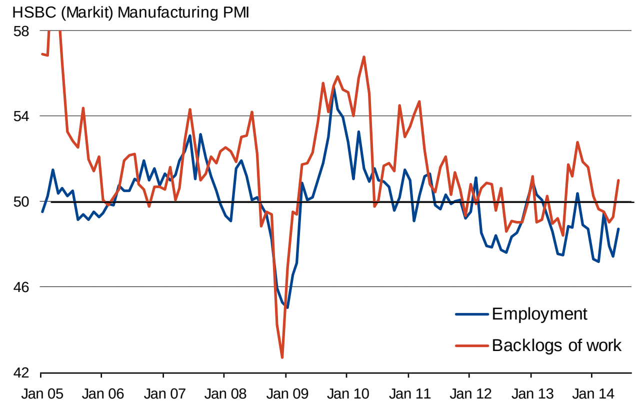
The low levels of activity in supply chains mean suppliers' delivery times – a key gauge of inflationary pressures – were largely unchanged in June, which bodes well for ongoing weak consumer price trends in China and a possible cooling of inflation from the 2.5% annual pace seen in May.

Exports



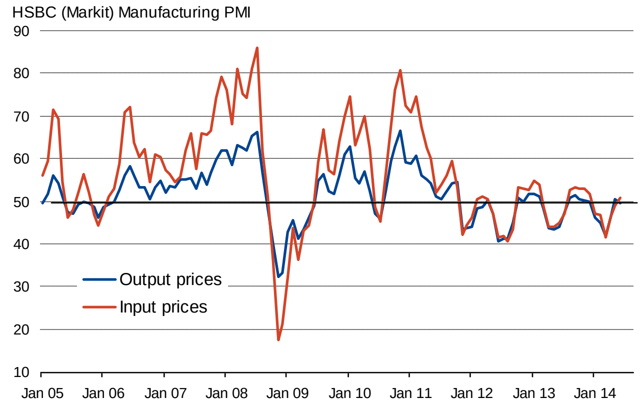
Sources: Markit, NBS (via Ecowin).

Operating capacity



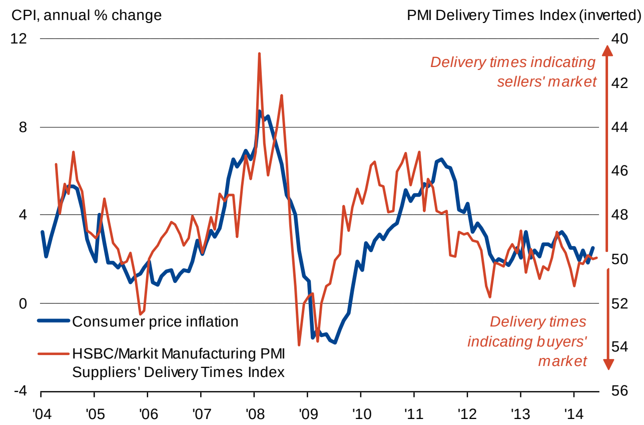
Source: Markit.

Input and output prices



Source: Markit.

Suppliers' delivery times and inflation



Sources: Markit, NBS (via Ecowin).

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