HSBC China Manufacturing PMI™

Slower rise in manufacturing output

Summary

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 50.2 in September, broadly unchanged from 50.1 in August, and signalled that operating conditions improved fractionally since the previous month. Though only slight, this was a positive development, with the PMI signalling a further improvement upon July's 11-month low.

Output across the Chinese manufacturing sector expanded for the second successive month in September, though the rate of growth slowed to a fractional pace. Furthermore, growth of new work was unchanged from the previous month and only slight. Nonetheless, new business from overseas increased for the first time in six months (albeit marginally), with panellists citing stronger demand from client bases in Europe and the US.

An increased amount of new work led to a further modest increase in purchasing activity at Chinese manufacturers. In contrast, stocks of inputs fell for the eighth month in a row, albeit at the weakest pace in the current sequence of reduction.

Stocks of finished goods declined for the third successive month, though only slightly. According to a number of surveyed firms, an increased amount of new business led to the depletion of inventories.

Greater volumes of incoming new work led to a modest accumulation of work-in-hand. Backlogs of work have now increased for two successive months. Despite expansions of both output and new work, employment levels continued to decline and at a similar pace to that seen in August.

Stronger demand for production materials led to a renewed deterioration of vendor performance. Though modest, it was the strongest lengthening of lead times since January.

Average production costs increased for the second consecutive month in China's manufacturing sector. The rate of input price inflation was marked, with nearly 14% of respondents noting increased cost burdens. Higher prices for raw materials such as steel and oil were said to have driven inflation. Firms chose to pass on their higher input prices to clients by raising their output charges for the second month in a row. However, the rate of increase was below-trend and only modest.

Comment

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

"The September HSBC China Manufacturing PMI edged up slightly from August. New orders remained flat from the previous month, while external demand improved. Manufacturers restocking process continued but remained relatively slow. Growth is bottoming out on Beijing's mini-stimulus. We expect continuous policy efforts to sustain the recovery."

Key points

- Output growth eases to fractional pace
- New business from abroad increases for the first time in six months
- Purchasing activity rises for second successive month

Historical Overview

Sources: Markit, HSBC.

The October HSBC Flash China Manufacturing PMI is due for release 24th October 2013.

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 PMIs:

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