

HSBC China Manufacturing PMI™

New orders increase at quickest rate since March 2013

Summary

Chinese manufacturers signalled the first improvement in overall operating conditions for six months in June. Output rose for the first time since January, and at a moderate pace. Growth was supported by the strongest expansion of total new work since March 2013, while new export orders rose for the second month running. Increased volumes of new business led to the quickest depletion of stocks of finished goods for nearly three years, while job shedding was the weakest in three months.

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 50.7 in June, up from 49.4 in May, and signalled the first improvement in business conditions since last December. That said, the rate of improvement was only slight and weaker than the historical average.

The improvement in the health of the sector partly reflected the first expansion of total new business placed at Chinese manufacturers for five months during June. Furthermore, it was the strongest rate of new order growth in 15 months. Reports from panellists suggested that improving market conditions boosted sales in the latest survey period. New export business also rose in June, albeit at a marginal pace that was weaker than May's 49-month high.

Increased volumes of new work led to the first expansion of output since January. The rate of growth was also the quickest since last November.

June data signalled renewed capacity pressures at Chinese manufacturers, with backlogs of work rising for the first time in five months. That said, the rate of increase was only slight. Anecdotal evidence suggested that unfinished business rose due to increased amounts of new work. Consequently, stocks of finished goods declined at a moderate pace that was the fastest since September 2011. Staffing levels meanwhile declined for the eighth successive month in June. However, the pace of reduction eased to a modest pace that was the second-weakest in 2014 so far.

Purchasing activity in China's manufacturing sector rose again in June, amid reports of higher production requirements. The rate of activity growth edged up to a modest pace that was the strongest in the year to date. Average input costs increased for the first time since last December in June. That said, the rate of inflation was moderate and much weaker than the long-run series average.

Comment

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

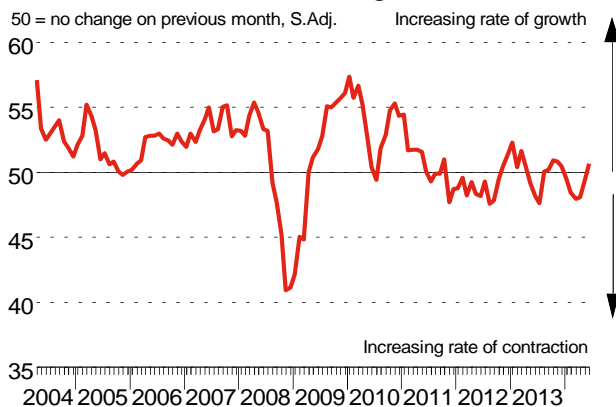
"The HSBC China Manufacturing PMI final reading for June rebounded to 50.7, up from 49.4 in May, and relatively unchanged from the flash reading. This confirms the trend of stronger demand and faster de-stocking. The economy continues to show more signs of recovery, and this momentum will likely continue over the next few months, supported by stronger infrastructure investments. However there are still downside risks from a slowdown in the property market, which will continue to put pressure on growth in the second half of the year. We expect both fiscal and monetary policy to remain accommodative until the recovery is sustained."

Key points

- Output rises for the first time since January
- Stocks of finished goods decline at strongest rate since September 2011
- Rate of job shedding eases

Historical Overview

HSBC China Manufacturing PMI



Sources: Markit, HSBC.

The July HSBC Flash China Manufacturing PMI is due for release 24th July 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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