

HSBC China Manufacturing PMI™

Operating conditions improve at slowest pace in three months

Summary

Chinese manufacturers saw a further improvement in overall operating conditions in August. That said, the pace of improvement eased to a fractional pace as both output and new order growth slowed and job shedding in the sector persisted. Meanwhile, input costs declined for the first time in three months while increased competition for new business led manufacturers to reduce their selling prices.

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 August, down from July's 18-month high of 51.7. This signalled only a fractional pace of improvement that was the weakest in three months.

The decline in the headline index partly reflected slower expansions of both output and total new business during August. The rates of production and new order growth were moderate overall, having eased from 16-month highs in July. Data suggested that client demand softened both at home and abroad, as new export work also rose at a weaker pace in August. While some panellists mentioned that improving market conditions and new client wins boosted new work intakes, others commented on relatively subdued client demand.

As has been the case since November 2013, manufacturing firms in China continued to reduce their staffing levels in August. Furthermore, the rate of job shedding was the quickest in three months and moderate overall. Companies that reported lower workforce numbers partly attributed this to the implementation of cost reduction policies. Despite lower staff numbers, backlogs of work rose for the third successive month in August, albeit marginally.

In response to greater volumes of new work, firms raised their purchasing activity for the fourth month running in August. That said, the rate of growth weakened from July and was modest overall. In contrast, stocks of purchases declined moderately over the month following a slight expansion in July. A number of respondents increased their use of current inventories as part of ongoing efforts to readjust inventory levels.

Average input costs faced by Chinese manufacturers declined in August. However, the rate of reduction was only slight. Selling prices set by manufacturers also declined, albeit marginally. Anecdotal evidence suggested that a number of companies reduced their selling prices as part of efforts to increase new business.

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 eased slightly to 50.2 in the final reading for August from the flash reading of 50.3. The revisions were mixed, with upward revision to the new export orders and output sub-indices but downward revisions to the employment and input prices indices. Although external demand showed improvement, domestic demand looked more subdued. Overall, the manufacturing sector still expanded in August, but at a slower pace compared to previous months. We think the economy still faces considerable downside risks to growth in the second half of the year, which warrant further policy easing to ensure a steady growth recovery."

Key points

- Weaker expansions of both output and new orders recorded
- Job shedding intensifies
- Input costs decline for the first time since May

Historical Overview



Sources: Markit, HSBC.

The September HSBC Flash China Manufacturing PMI is due for release 23rd September 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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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

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