

## HSBC China Manufacturing PMI

Slowest growth of Chinese manufacturing sector for six months

### Summary

The headline HSBC China Manufacturing PMI™ remained above the neutral 50.0 threshold in April, pointing to a further improvement in Chinese manufacturing sector operating conditions. Despite falling to a six-month low of 55.4, the index was consistent with a marked rate of expansion.

Manufacturing production rose for the thirteenth month running during April. Although still marked, the rate of expansion was the slowest since last July. Where a rise in output was signalled, panellists often linked growth to greater inflows of new business. Further gains in new work primarily reflected stronger market demand, while there were also reports that improved economic conditions had led to higher client spending. Despite easing to the slowest in five months, the rate of expansion in new work was substantial. Data signalled that export sales rose again in April. However, the rate of increase eased from March's near-record to the slowest since July 2009. Furthermore, a much faster rise in overall new orders relative to new export business suggested that domestic demand was the primary driver of sales growth in April.

According to the latest data, backlogs of work were accumulated at the fastest rate in five years during April. Survey respondents widely reported that growth of unfinished business reflected continued gains in new work.

Employment growth in the Chinese manufacturing sector was registered for the eleventh consecutive month in April. Those respondents that reported a rise in employment generally attributed growth to higher intakes of new business and a subsequent increase in production requirements.

April data signalled that prices charged by Chinese manufacturing firms rose at a marked rate that was the fastest in three months. Stronger output price inflation largely reflected higher prices paid for a wide range of raw materials. Some respondents also mentioned that firmer demand had strengthened manufacturers' pricing power. Meanwhile, average input prices faced by Chinese manufacturers rose sharply in April. Copper, cotton, oil and steel were all reported to have risen in price on the month. Input price inflation has now been signalled for ten successive months.

### Comment

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

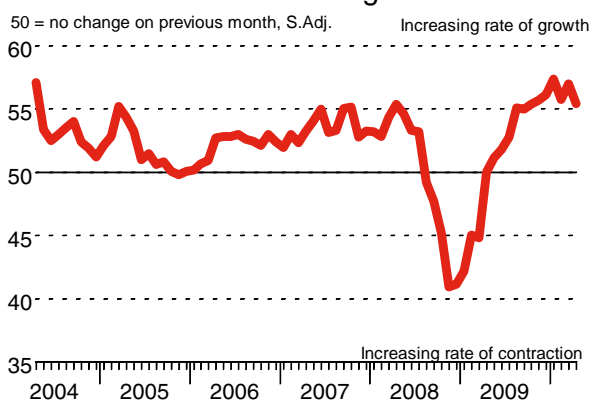
*"April's PMI points to a moderate slowdown in the expansion of manufacturing activity. We see this as good news because it means that Beijing's policy tightening is starting to cool the overheated economy, which will help to contain inflationary risk in the coming quarters."*

### Key points

- Weaker rises in both output and new business signalled.
- Growth of outstanding business the fastest in five years.
- Input price inflation remained considerable.

### Historical Overview

#### HSBC China Manufacturing PMI



**For further information, please contact:**

**HSBC**

Hongbin Qu, Chief Economist, China & Co-Head  
of Asian Economic Research  
Telephone +852-2822-2025  
Email hongbinqu@hsbc.com.hk

Dan Dan Chang, Head of Group Communications, China  
Telephone +86-21-3888-1807  
Email dandanchang@hsbc.com.cn

**Markit**

Alex Hamilton, Economist  
Telephone +44-1491-461-076  
Email alex.hamilton@markit.com

Caroline Lumley, Corporate Communications  
Telephone +44-20-7260-2047  
Email caroline.lumley@markit.com

**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 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Chinese Industrial Production. 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.

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