

Embargoed until: 10:30 (BEIJING), 4 May 2010

## HSBC China Manufacturing PMI

Slowest growth of Chinese manufacturing sector for six months.

### Key findings:

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

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.

Behind the latest PMI reading, April's survey pointed to slower rises in both manufacturing output and new orders. Staffing levels rose modestly, while backlogs were accumulated at the fastest rate in five years. Meanwhile, average vendor performance deteriorated for the ninth month in succession.

Chinese 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

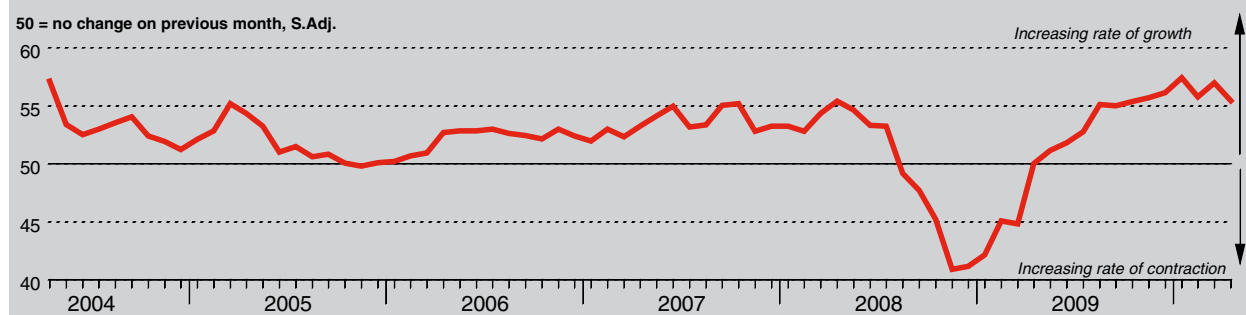
at the fastest rate in five years during April. Survey respondents widely reported that growth of unfinished business reflected continued gains in new work.

Employment growth in the Chinese manufacturing sector was registered for the eleventh consecutive month in April. Although marginal and slower than in the previous month, the rate of job creation was faster than the long-run series average. 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.

Purchasing activity among firms operating in the Chinese manufacturing sector rose further in April, although the rate of expansion was the slowest in nine months. Higher input buying continued to increase pressure on supplier capacity, with average lead times lengthening at the fastest rate since August 2008.

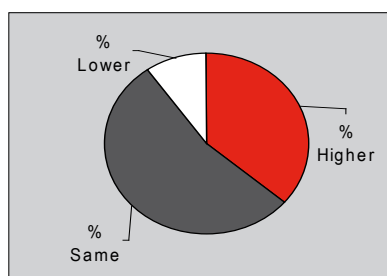
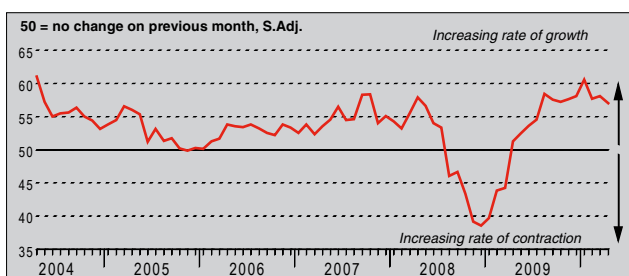
HSBC China Purchasing Managers' Index (PMI™)



The HSBC China Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

### Output Index

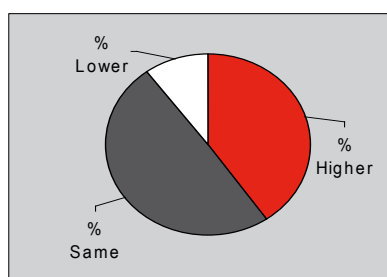
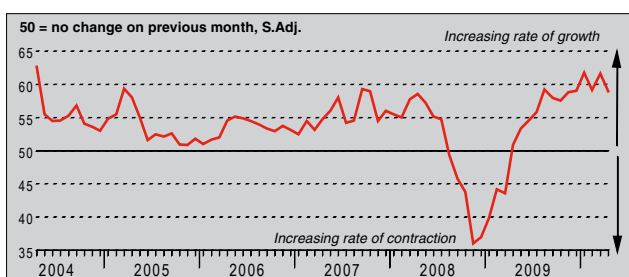
Q. Please compare your production/output this month with the situation one month ago.



After accounting for seasonal trends, the Output Index remained above the neutral 50.0 threshold in April, pointing to the thirteenth successive monthly rise in Chinese manufacturing production. Although still marked and faster than the long-run series average, the rate of expansion eased to the slowest since July last year. Strong growth of new business and the start of new production lines were the principal reasons given by Chinese manufacturers for the latest rise in output.

### New Orders Index

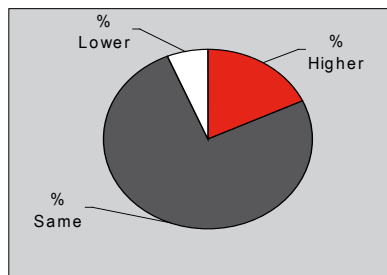
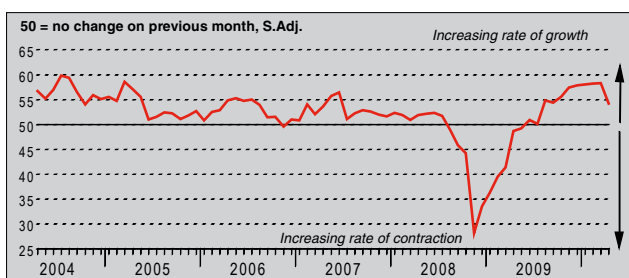
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



New business taken by Chinese manufacturers rose for the thirteenth successive month in April. Despite falling since March, the seasonally adjusted New Orders Index was at a level indicative of a substantial rise in new orders. Anecdotal evidence suggested that higher intakes of new work primarily reflected stronger client demand and, in some cases, the success of promotional activities. Furthermore, a faster rise in overall new orders relative to export sales suggests that domestic demand was the largest contributor to new business growth in April.

### New Export Orders Index

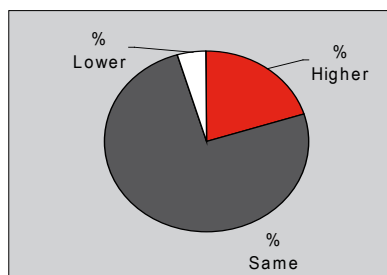
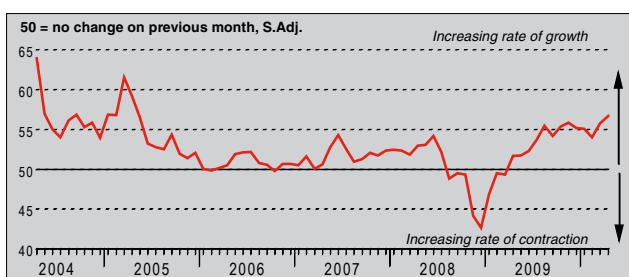
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Data indicated that the level of new export business received by Chinese manufacturers continued to rise in April, largely as a result of firmer demand from external sources. Although still above the neutral level of 50.0, the seasonally adjusted New Export Orders Index fell markedly from March's near-record high, pointing to the slowest rate of expansion in nine months. Growth of new export business has now been registered in each of the past eleven months.

### Backlogs of Work Index

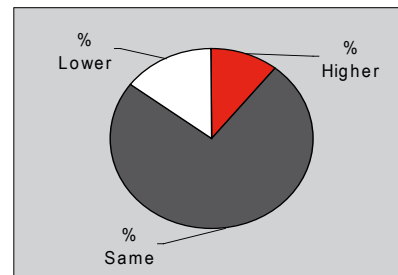
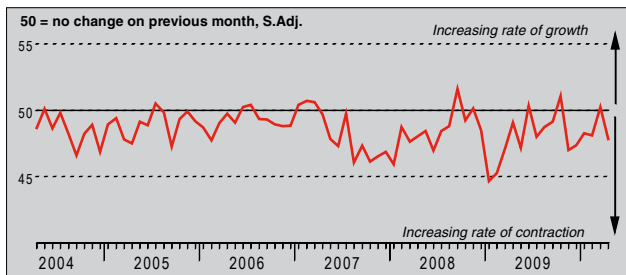
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



According to the latest data, backlogs of work at Chinese manufacturers were accumulated for the thirteenth consecutive month in April, with around one-fifth of the survey panel reporting an increase since March. This compared to only 4% that reported a decline. Growth of work-in-hand was marked, and accelerated to the fastest in five years. Respondents widely commented that a sharper increase in new orders relative to output was the key factor behind the latest rise in outstanding business.

## Stocks of Finished Goods Index

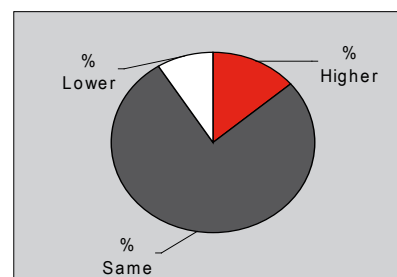
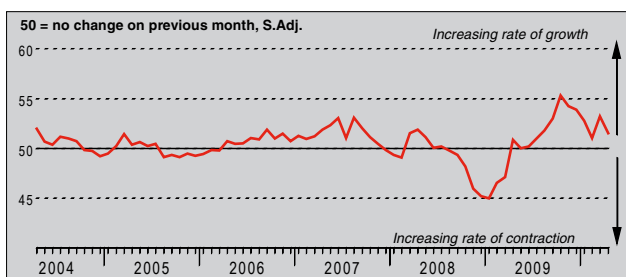
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Following a slight increase in the previous month, post-production inventories in the Chinese manufacturing sector fell in April. The pace of destocking was moderate, and the fastest in 2010-to-date. Almost 15% of survey respondents reported a reduction in finished goods holdings since March, versus around 11% that signalled a rise. Those panellists that reported a reduction in post-production inventories generally attributed this to greater inflows of new business. Some manufacturers also mentioned deliberate stock reduction policies.

## Employment Index

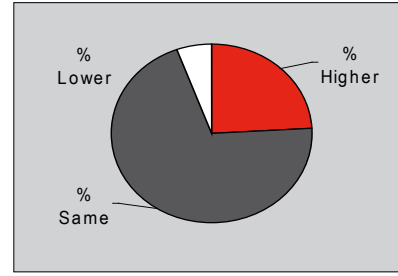
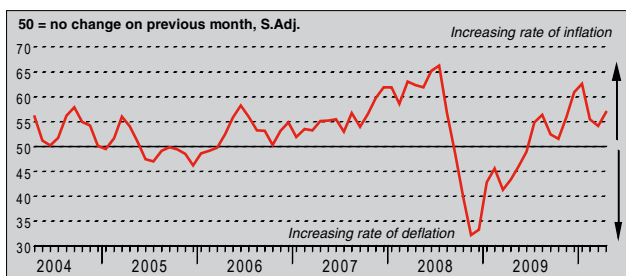
Q. Please compare the level of employment at your unit with the situation one month ago.



Staffing levels in the Chinese manufacturing sector rose again in April, extending the current period of expansion to eleven months. However, the rate at which companies added to their workforce numbers was only modest, and slower than the average for Q1 2010 and the second half of 2009. Of those panellists that reported a rise in manufacturing employment (almost 14%), many linked this to the need to expand capacity in response to rising workloads (both new and outstanding).

## Output Prices Index

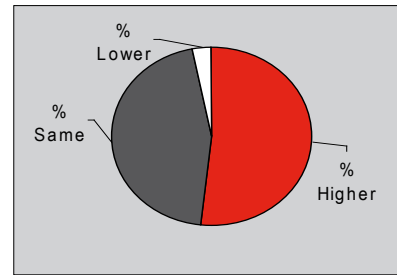
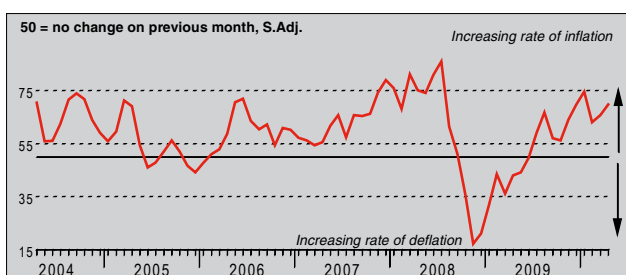
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index rose to a three-month high in April, pointing to a marked rise in output prices set by Chinese manufacturing firms. Survey respondents frequently mentioned that output price inflation, which has now been signalled for ten successive months, reflected higher raw material prices. There were also reports that firmer client demand had strengthened the ability of manufacturers to raise their factory gate prices.

## Input Prices Index

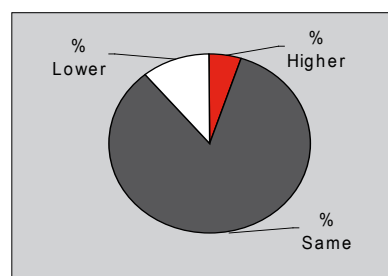
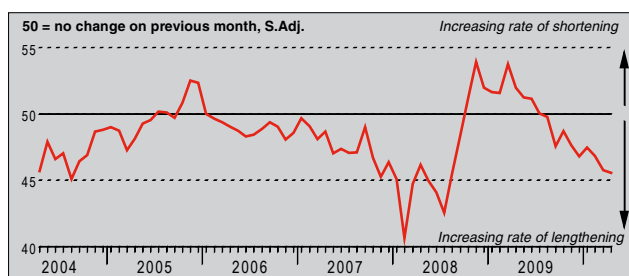
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input costs faced by Chinese manufacturing firms rose for the tenth successive month in April, increasing at a considerable rate that was the fastest in three months. The rate of inflation was stronger than the long-run series average, and contrasted with that seen one year ago, when purchase costs fell steeply. Panellists reported that input price inflation mainly reflected higher raw material costs, with prices paid for copper, cotton, oil and steel all reported to have risen on the month.

## Suppliers' Delivery Times Index

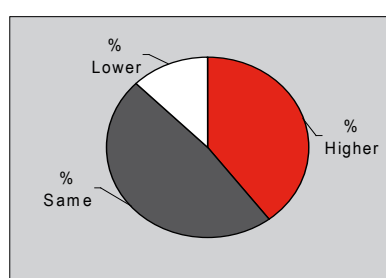
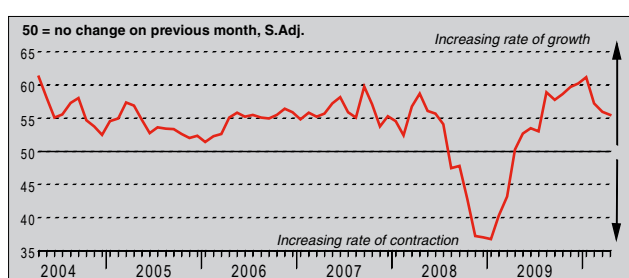
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Slower lead times were signalled in the Chinese manufacturing sector for the ninth month running in April, with approximately 11% of panellists reporting that the average time taken by vendors to deliver inputs had lengthened since March. This compared to 5% that reported faster delivery times. The rate of deterioration in supplier performance was solid, and the fastest since August 2008. According to respondents, longer lead times primarily reflected supply shortages at vendors.

## Quantity of Purchases Index

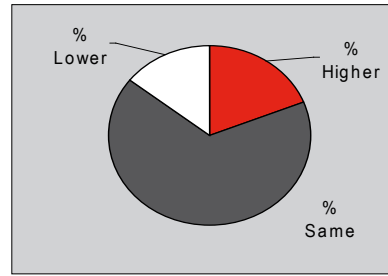
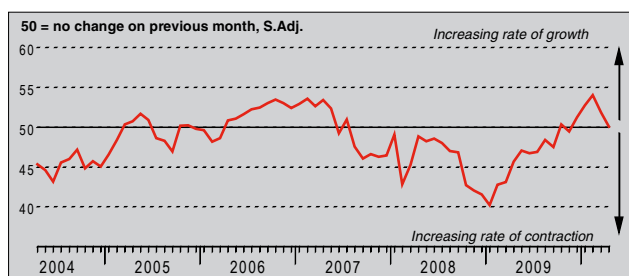
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Latest data signalled that buying activity amongst Chinese manufacturers rose for the thirteenth straight month in April. The rate at which companies bought new materials to fulfil increased production requirements was marked, albeit the slowest since July last year. Survey respondents generally reported that a greater volume of raw materials was required in order for production to be increased following steep gains in new business.

## Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Inventories of semi-manufactured goods and raw materials in the Chinese manufacturing sector were broadly unchanged in April, with the majority of panellists (around two-thirds) reporting no difference in stock levels since March. Where a rise in pre-production inventories was signalled, panellists often linked this to increased purchasing activity. Those respondents that indicated a decline generally attributed this to stock rationalisation policies aimed at utilising existing inventories in production.

## Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 430 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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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