HSBC Purchasing Managers' Index 2010

compiled by markit

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HSBC China Manufacturing PMI

PMI fell to an eleven-month low in May, signalling only a moderate improvement of Chinese manufacturing operating conditions.

Key findings:

- Markedly slower rises in both output and new business recorded in May.
- Job creation eases to moderate pace.
- Input and output prices both rise at slowest rates in seven months.

The recovery of China's manufacturing sector lost some momentum in May, highlighted by a drop in the headline HSBC China Manufacturing PMI™ – a seasonally adjusted index designed to measure the performance of the manufacturing economy – to 52.7 from a revised figure of 55.2 in April. May's reading was the lowest in eleven months and indicative of only a modest improvement of operating conditions in the manufacturing sector.

Behind the latest PMI reading, May's survey pointed to slower rises in both production and new work, while employment rose at the slowest rate since June 2009. Meanwhile, stocks of pre-production goods were accumulated for a sixth month running, with firms reporting safety stock building to guard against further delays in the supply chain.

Manufacturing output in China rose again in May. However, the rate of expansion was only modest, and eased to the slowest in twelve months in line with a weaker rise in new business. The slower expansion of new orders was reportedly reflective of relatively lacklustre demand from both home and external markets. New business received from abroad rose at the least marked rate in ten months, although growth was still above the historical series average.

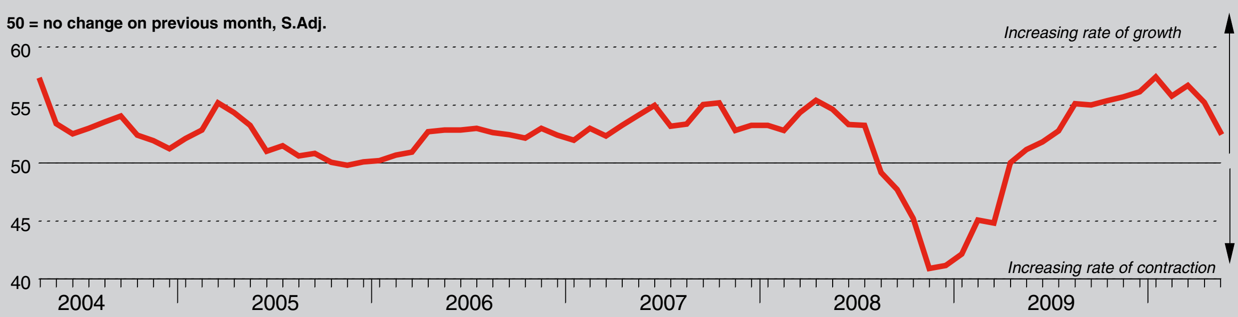
Backlogs of work in the Chinese manufacturing sector were accumulated at a solid rate in May, extending the current period of growth to fourteen months. Those respondents that reported an increase in unfinished business often mentioned that resources had been assigned to meet higher intakes of new business.

Chinese manufacturing employment rose again in May, although the pace at which firms added to their workforce numbers was only slight, and eased to the slowest since June 2009. According to respondents, employment growth reflected greater inflows of new business. Those panellists that reported a reduction in employment linked this to restructuring efforts and, in some cases, an increased number of retirements.

According to the latest data, the average cost of Chinese manufacturers' purchases rose substantially in May, albeit at a markedly slower rate that was the weakest in seven months. Prices paid for grain, oil and steel were all reported to have risen. Input price inflation has now been signalled for eleven months in succession. However, firms were unable to pass on the full extent of cost rises to clients, with output prices increasing at the slowest rate since last October. This primarily reflected higher competition for new business, while there were reports that some firms had reduced their factory gate prices to satisfy client requests.

In line with the trend in output and new business, purchasing activity rose at a slower rate in May. However, the rise in input buying was sufficient to supplement a further increase in pre-production inventories.

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.

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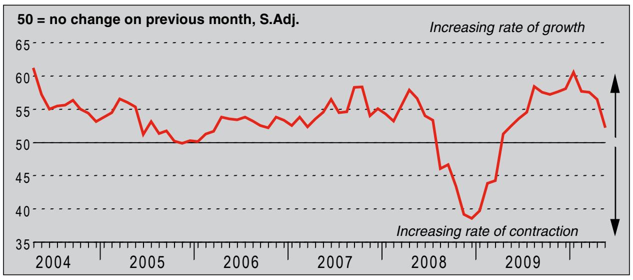
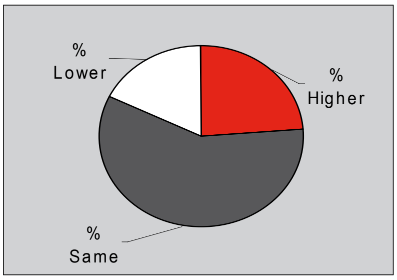
Output Index

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

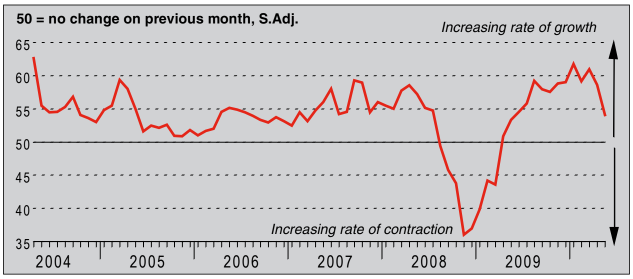


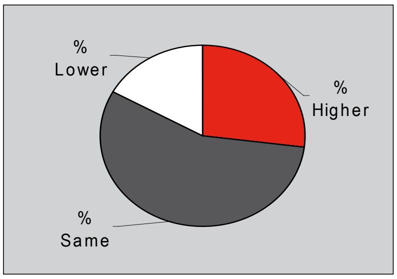


Despite remaining above the neutral level of 50.0 in May, the seasonally adjusted Output Index fell on April's downwardly adjusted figure to a level indicative of only a modest expansion of manufacturing output in China. After accelerating to a near-record at the start of the year, growth of production has subsequently lost momentum, with the latest rise in output the slowest in twelve months. According to respondents, the lacklustre rise in production primarily reflected a weaker increase in new orders from both domestic and external markets.

New Orders Index

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

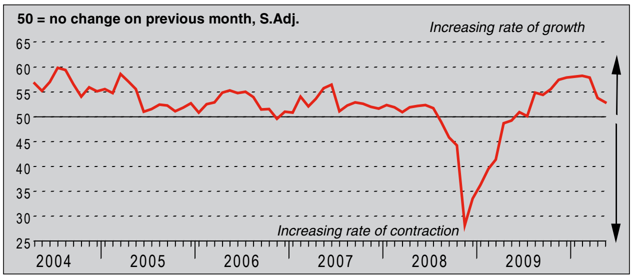


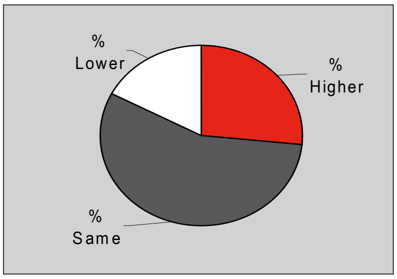


According to the latest data, the level of new business taken by Chinese manufacturing firms rose further in May, with exactly 27% reporting an increase from the preceding month. Respondents commented that new business gains reflected a combination of higher market demand, new product developments and the success of promotional activities. However, the pace of expansion in new work was the slowest in twelve months, with a number of panellists citing sluggish market conditions as limiting the pace of growth.

New Export Orders Index

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

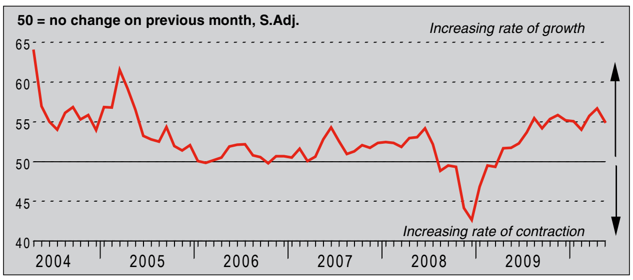


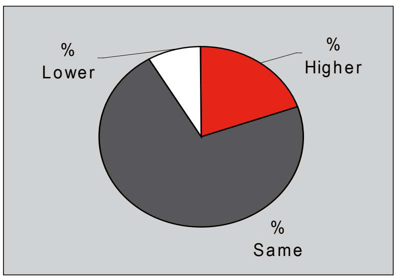


Demand from foreign markets continued to improve in May, with the seasonally adjusted New Export Orders Index posting above the neutral 50.0 threshold for the twelfth month in succession. However, the index fell to its lowest level since last July, pointing to a moderate rate of expansion that was slower than the long-run series average. Where a rise in new export business was signalled, panellists widely attributed growth to greater market demand.

Backlogs of Work Index

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

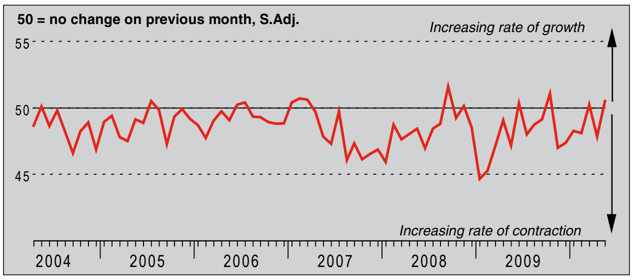


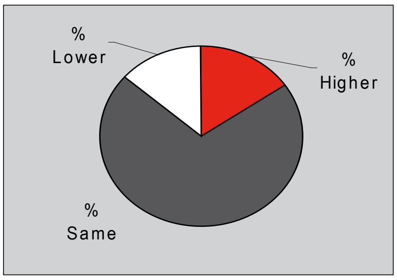


Outstanding business in the Chinese manufacturing sector rose in May, extending the current period of expansion to fourteen months. The pace at which backlogs were accumulated was solid, albeit the slowest since February. Those respondents that reported an increase in unfinished business often commented that resources had been assigned to meet higher intakes of new orders. There were also reports that the late delivery of raw materials had restricted the ability of manufacturers to complete work-in-hand.

Stocks of Finished Goods Index

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

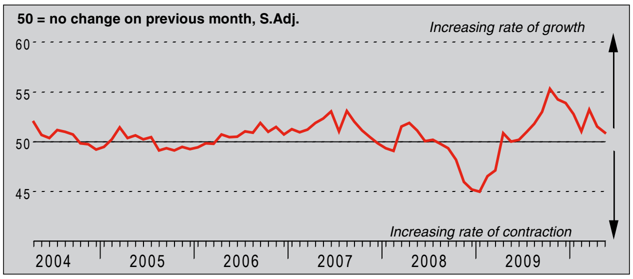


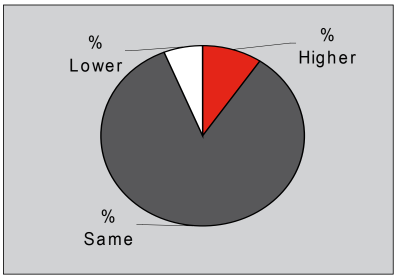


Data signalled that finished goods holdings in the Chinese manufacturing sector rose slightly in May, following a modest fall in the previous month. Of those companies that reported a rise in post-production inventories (almost 16%), the majority attributed growth to lower-than-expected intakes of new business. Destocking was signalled by around 14% of the survey panel, which they often linked to deliberate stock reduction policies.

Employment Index

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

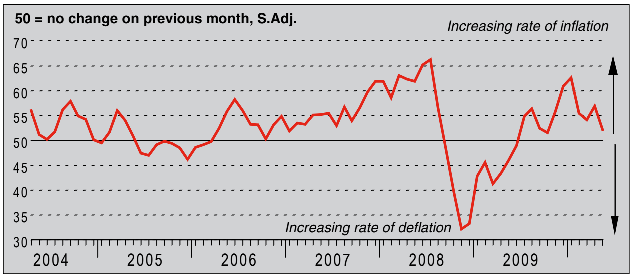


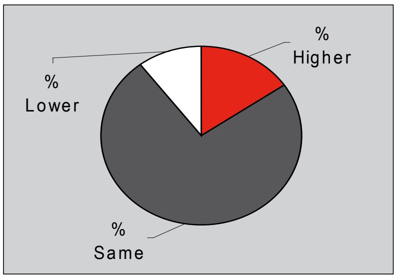


The seasonally adjusted Employment Index remained above the neutral 50.0 threshold in May, pointing to a further rise in Chinese manufacturing employment. However, the pace at which firms added to their staff numbers was only slight, and the slowest in eleven months. Around 9% of panellists reported a rise in workforce numbers, which they generally attributed to higher workloads (both new and outstanding). Where a decline in staff numbers was signalled, panellists linked job shedding to restructuring efforts and an increase in the number of retirements.

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.

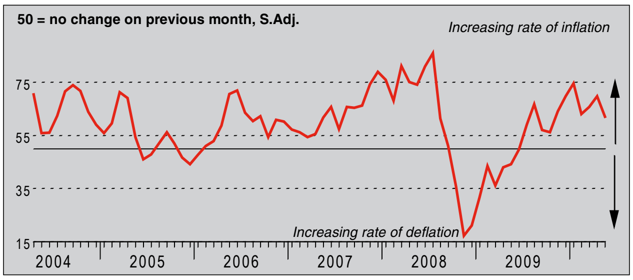


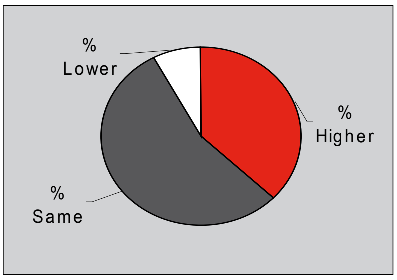


Output prices set by Chinese manufacturers increased in May. However, the rate of deflation was only modest, and the slowest since October 2009. Almost 16% of panel members reported an increase in factory gate prices from the previous month, versus around 10% that signalled a fall. Anecdotal evidence suggested that output price inflation reflected higher prices paid for raw materials. Those firms that reported a decline in output charges often linked this to promotional activities aimed at attracting new business, partly reflecting relatively lacklustre demand.

Input Prices Index

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

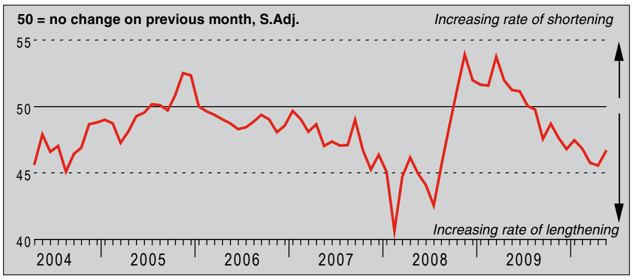


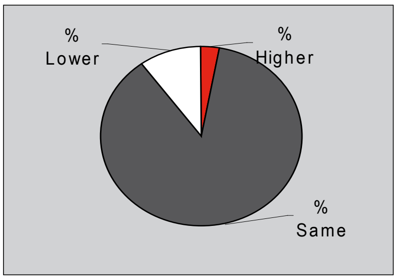


The seasonally adjusted Input Prices Index signalled that purchase costs faced by firms operating in the Chinese manufacturing sector rose sharply in May, albeit at the slowest rate in seven months. Input price inflation has now been signalled for eleven successive months. Prices paid for grain, oil and steel were all reported to have risen. Panellists commented that inflation emanated from both domestic and international markets in the latest survey period.

Suppliers' Delivery Times Index

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

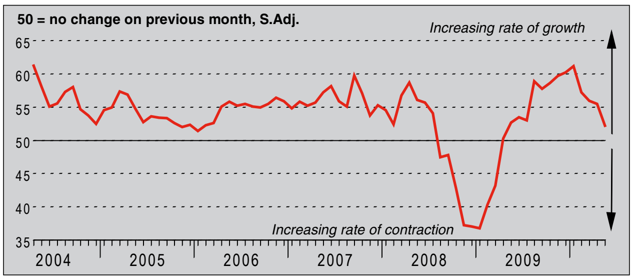


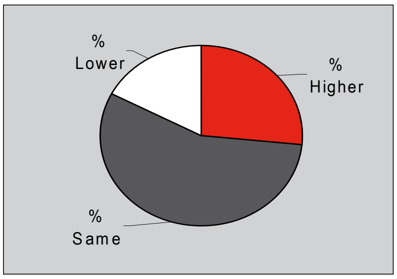


The seasonally adjusted Suppliers' Delivery Times Index remained below the neutral 50.0 threshold for the tenth month running in May, indicating that Chinese manufacturers continued to experience delays in the delivery of their ordered products. Despite weakening to the slowest in three months, the pace at which average vendor performance deteriorated was solid. Evidence provided by the survey panel suggested that delivery delays reflected a lack of supply at vendors.

Quantity of Purchases Index

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

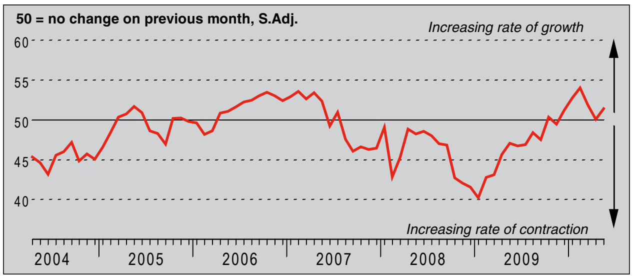


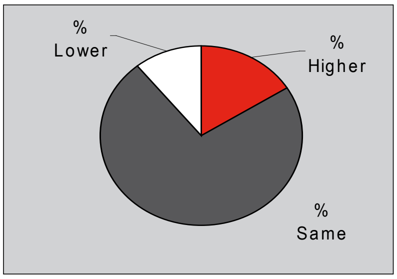


Purchasing activity in the Chinese manufacturing sector continued to rise in May, with almost 27% reporting an increase from the previous month. This compared to 17% that signalled a contraction. Nonetheless, the rate at which companies acquired inputs was only modest, and eased to the slowest in thirteen months. Survey participants widely commented that the slower rise in buying activity principally reflected a weaker increase in manufacturing production.

Stocks of Purchases Index

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





Inventories of raw materials and semi-manufactured goods rose for the sixth month running in May, increasing at a modest rate that was faster than in the previous month. However, the rate of stock accumulation was slower than the average for 2010-to-date. There were a number of comments from respondents of safety stock building to guard against supply shortages. In some cases, delays in the delivery of raw materials were reported to have led to a decline in inventories during May.

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: 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.