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## HSBC China Manufacturing PMI

Marginal growth of Chinese manufacturing sector signalled by June's survey.

### Key findings:

- Slight declines in output, new orders and new exports signalled.
- Modest employment growth.
- Output prices fell for the first time in twelve months.

At 50.4, down from 52.7 in the previous month, the headline HSBC China Manufacturing PMI™ – a seasonally adjusted index designed to measure the performance of the manufacturing economy – signalled only a marginal improvement in Chinese manufacturing sector operating conditions.

Behind the latest PMI reading, June's survey pointed to slight declines in manufacturing output and new orders. Staffing levels rose modestly, while slower lead times were signalled for the eleventh month running. Meanwhile, stocks of pre-production goods fell for the first time since last November.

Manufacturing output in China fell during June, ending a fourteen-month period of expansion. Although only marginal, the pace of contraction contrasted with near-record growth registered at the start of the year. Where a fall in production was signalled, firms often attributed this to fewer intakes of new orders.

For the first time in fifteen months, the level of new business taken by Chinese manufacturing firms fell in June. The rate of decline in new work was only fractional, but marked a distinct turnaround from strong growth seen throughout Q1 2010. Those respondents that reported a drop in new orders widely commented that this reflected softer market demand. New orders placed by foreign clients also fell in June, with the pace of decline the fastest since March 2009. Manufacturers widely mentioned that reduced new export business reflected lacklustre global demand.

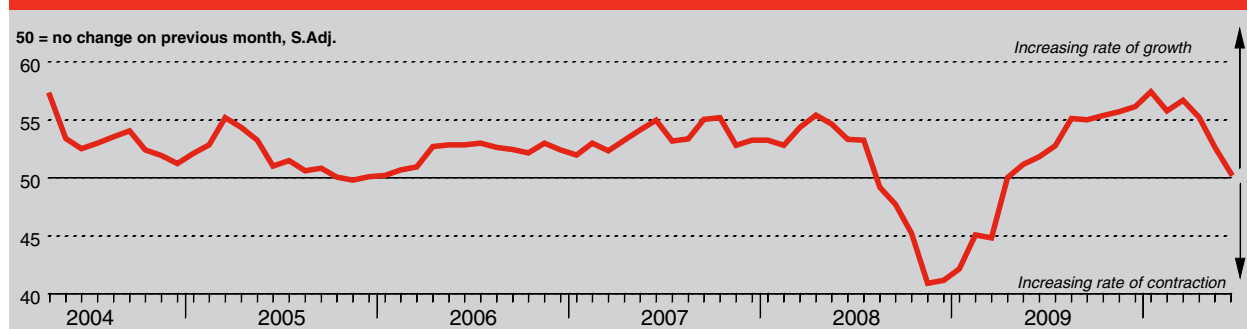
Manufacturing employment in China rose for the thirteenth month running in June. The rate at which firms added to their workforce numbers was modest, though slightly faster than in the previous month. Manufacturers reported adding to their payrolls as part of efforts to expand productive capacity.

Output prices set by Chinese manufacturing firms fell for the first time in twelve months during June. The rate of decline was modest, and contrasted with strong inflation seen at the beginning of the year. Anecdotal evidence suggested that reduced output charges reflected lower input costs and, in some cases, client requests for price discounts.

Latest data signalled that average input costs fell in June, ending a sequence of inflation that had stretched to eleven months. Where a decline in cost burdens was signalled, companies widely attributed this to lower raw material prices, with steel mentioned in particular.

In response to lower production requirements, purchasing activity in the Chinese manufacturing sector fell in June. The pace of reduction was only modest, but contrasted with rapid growth seen around the turn of the year. The fall in purchasing also reflected a utilisation of existing pre-production inventories, which fell for the first time in seven months. Furthermore, average supplier performance deteriorated for the eleventh month running in June, largely as a result of supply shortages at vendors.

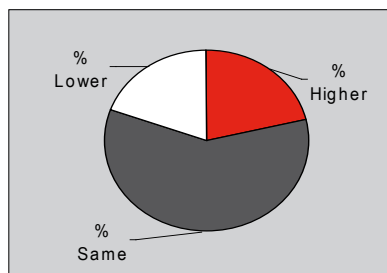
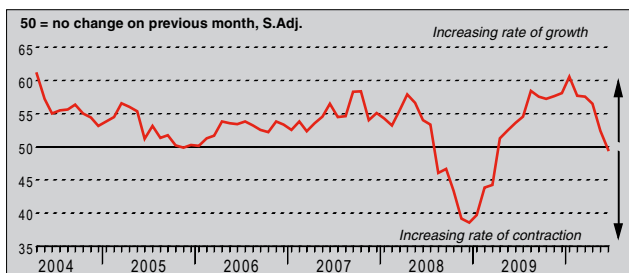
HSBC China Purchasing Managers' Index (PMI™)



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

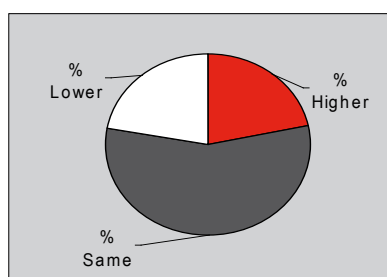
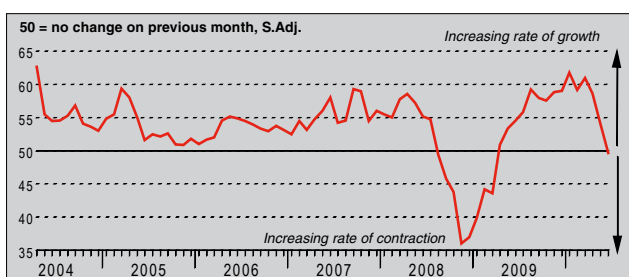
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index fell below the neutral 50.0 threshold in June, pointing to the first reduction in Chinese manufacturing output since March 2009. That said, the rate of decline was only marginal, with broadly similar proportions of the survey panel indicating a decrease in output as signalled a rise. Where a decline in production was signalled, companies attributed this to softer market demand and reduced new order levels.

### New Orders Index

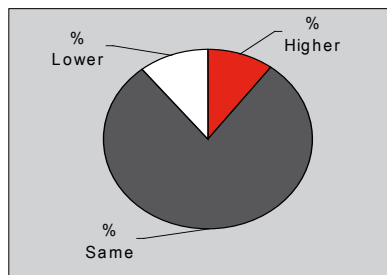
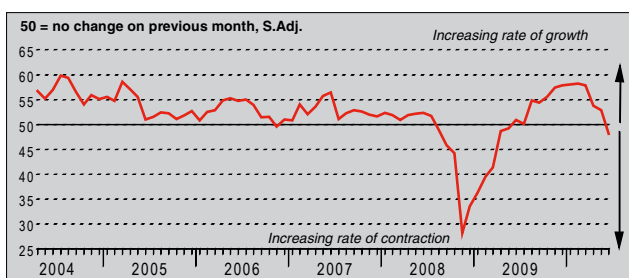
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



As with production, new order volumes were slightly down in June, indicating a marked turnaround from earlier in 2010, when near record rates of growth were signalled. Those companies that reported a drop in new order levels often mentioned that this reflected a stagnation of client demand from both domestic and external markets. There were also a number of reports of oversupply and that state control on the development of property had led to a slowdown at the domestic level.

### New Export Orders Index

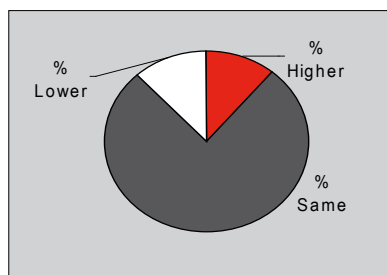
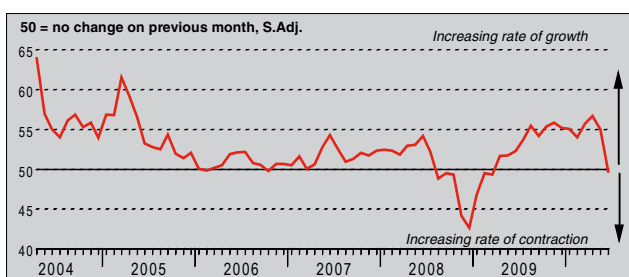
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Amid reports of lacklustre global demand given uncertainties about the economic outlook, a net fall in manufacturing exports was signalled during June. That snapped a twelve-month run of growth, which included near record increases in new orders from abroad registered at the start of the year. Around 11% of the survey panel indicated a decline in export orders, but the majority (almost 79%) reported no difference in foreign order levels from the preceding month.

### Backlogs of Work Index

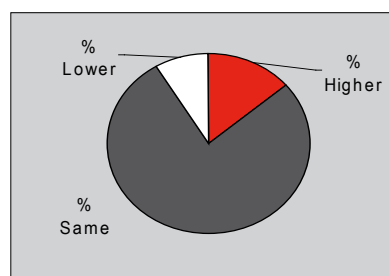
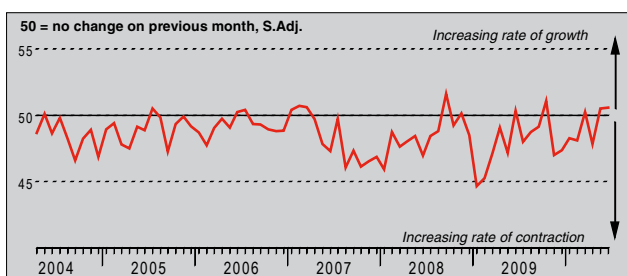
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Following a period of marked growth, which lasted fourteen months, a marginal decline in levels of work outstanding was indicated in June. Reduced volumes of incoming new orders in the latest survey period were noted as the primary factor that had enabled companies to lower their backlogs of work. Where growth of backlogs was indicated, companies commented on labour shortages and that productive capacity remained under pressure.

### Stocks of Finished Goods Index

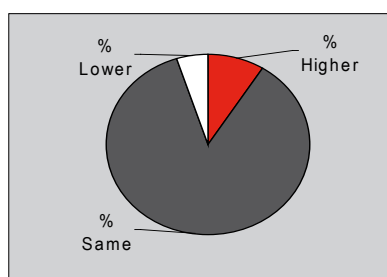
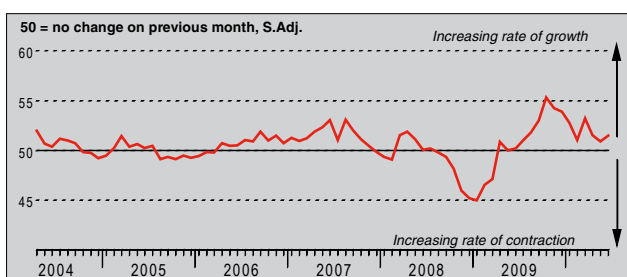
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Chinese manufacturers added to their stocks of finished goods for a second consecutive month and for the third time in the past four during June. Although only marginal, the rate of stock accumulation was the fastest since October last year. There were a number of reports that inventories had increased due to a reduction in new order volumes and an excess of production. Some respondents commented that stocks had been increased ahead of expected demand growth.

### Employment Index

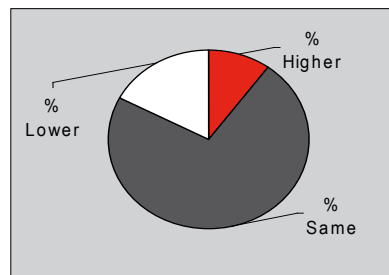
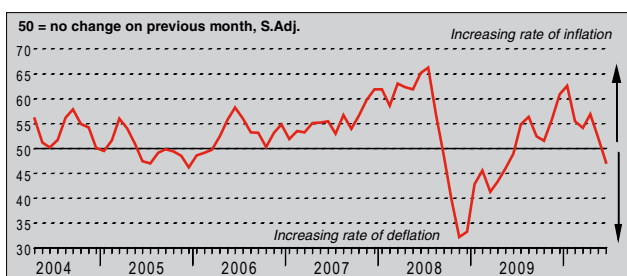
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in China increased for a thirteenth successive month in June. Growth was modest, and slightly up since May, though remained well below the record rates seen towards the end of last year. Around 9% of the survey panel signalled employment growth, and companies added to their payrolls as part of efforts to expand productive capacity. Only 5% of manufacturers reported a decline in staff numbers from the preceding month.

### Output Prices Index

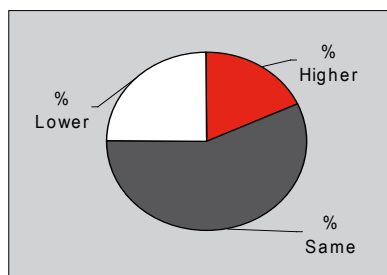
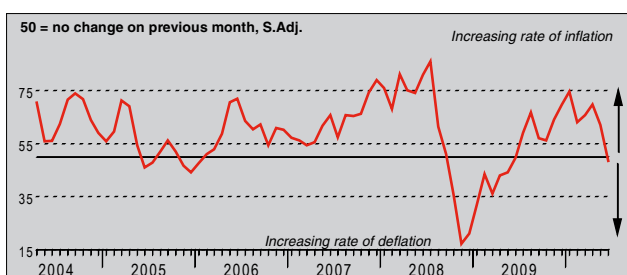
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



With nearly 17% of the survey panel reporting a fall, there was a net decline in average output charges signalled in June. Latest data marked the first such deflation since June 2009 and indicated a marked turnaround since the turn of 2010 when charges were being raised at rapid rates. Companies commented that they had passed on lower input costs during the month. There were a number of reports of client requests for discounts and some companies reduced charges as part of promotional activities.

### Input Prices Index

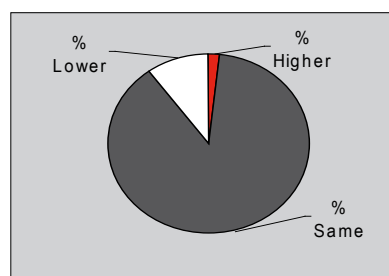
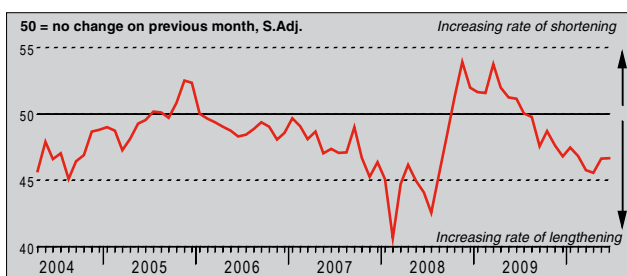
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Following eleven successive months of inflation, average input prices in the Chinese manufacturing economy decreased in June. The rate of decline contrasted with strong inflation seen in the preceding month. Around 25% of the survey panel reported a decline in costs, commenting that vendors were offering discounts in line with generally lower global commodity prices. A range of metals, in particular steel, were reported to have declined in price over the month.

## Suppliers' Delivery Times Index

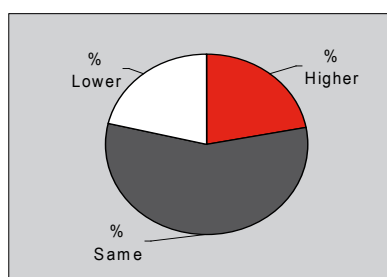
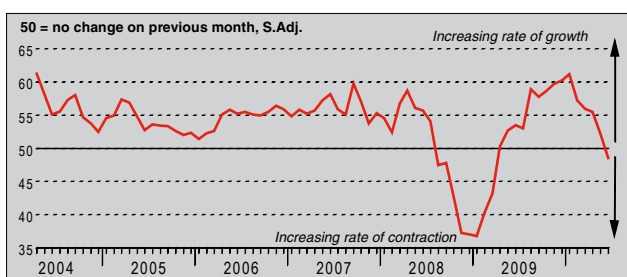
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



According to the latest data, average lead times continued to lengthen during June, in line with the trend throughout the previous ten months. There were again a number of reports that vendors were suffering stock shortages as global demand for inputs remained (relatively) strong. Exactly 10% of panellists indicated that lead times had lengthened in June, with the rate of deterioration broadly in line with that recorded in the previous month.

## Quantity of Purchases Index

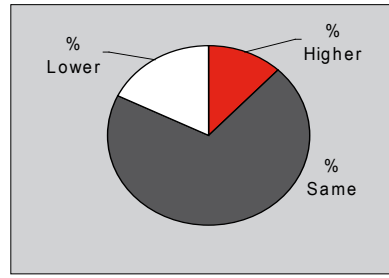
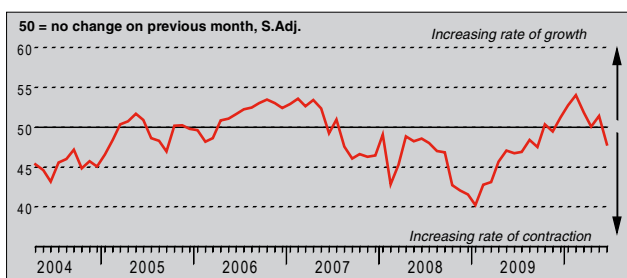
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Following fourteen months of growth, which included a near-record rate of expansion in January, a decline in purchasing activity was signalled during June. The modest reduction in purchasing, which contrasted with strong growth seen at the start of the year, was reported to primarily reflect a fall in production requirements and lower order volumes. The increased utilisation of existing inventories was also cited by panellists as having led purchasing lower.

## Stocks of Purchases Index

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



Stocks of purchases held by Chinese manufacturers fell in June for the first time in seven months. The rate of decline was solid, with around 18% of the survey panel indicating a fall in inventories. Respondents reported that reduced purchasing activity had led to a greater utilisation of inventories. Conversely, a number of panellists indicated that higher output had raised the consumption of purchase stocks in the latest survey period.

## 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.

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