HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC China Manufacturing PMI™

Chinese manufacturing sector operating conditions deteriorated for the first time in sixteen months during July.

Key findings:

- Fastest fall in new business since March 2009.
- Marginal rise in Chinese manufacturing employment.
- Average input costs fell at the fastest rate in fourteen months.

At 49.4, the seasonally adjusted headline HSBC China Manufacturing PMI™ posted below the neutral 50.0 threshold in July, pointing to the first month-on-month deterioration in Chinese manufacturing sector operating conditions since March 2009. This marked a distinct turnaround from the strong sector performance seen at the beginning of 2010, and continues the cooling trend observed since that peak.

Behind the latest PMI reading, July's survey pointed to second successive monthly declines in new business and output, but staffing levels rose for the fourteenth month running. Meanwhile, suppliers' delivery times lengthened at a moderate rate, and stocks of purchases fell for the second month in a row.

Manufacturing production in China fell again in July, decreasing at a fractional rate that was slightly slower than in the preceding month. Those panellists that reported a decline in output often linked this to reduced intakes of new business, which fell for the second month in succession. Furthermore, the rate of decline in new work accelerated to the quickest since March 2009, with many panellists citing lacklustre client demand as having negatively impacted upon new order books. New export business also fell in July, contrasting with near-record rates of growth seen throughout Q1 2010.

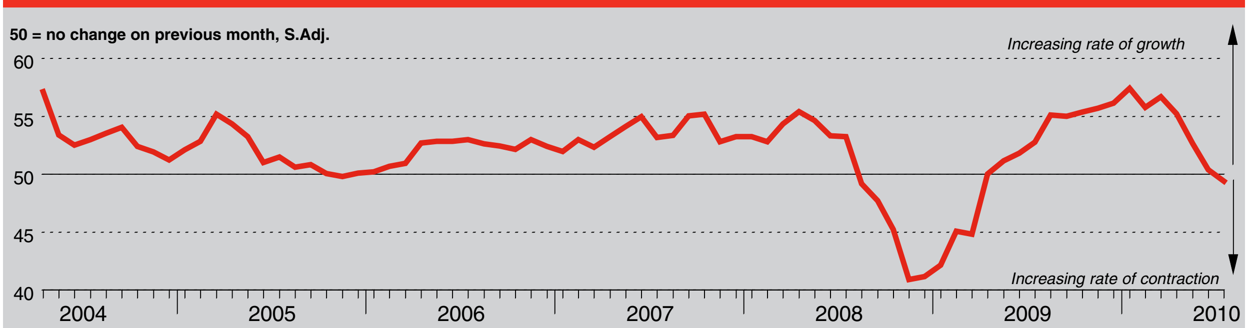
According to the latest data, outstanding business rose at a negligible rate in July, with a number of respondents reporting that they had sufficient capacity to deal with both new and existing business.

Staffing levels in the Chinese manufacturing sector rose again in July, extending the current period of growth to fourteen months. The rate of job creation was nevertheless only slight, and slower than in the preceding month. Company expansion plans were cited by panellists as having supported employment growth in the latest survey period. Conversely, those firms that noted a drop in staff numbers widely commented that employees had left due to low salary payments.

Average input costs fell further in July, decreasing at a solid rate that was the fastest since May 2009. As a result, factory gate charges fell for the second month running in July. Moreover, the solid rate of price discounting also reflected increased competition for new business. The PMI measures for output charges and input prices have fallen almost seventeen and thirty points respectively since the start of the year, highlighting the rapid nature of the slowdown in inflationary pressure.

Purchasing activity among Chinese manufacturing firms rose fractionally in July, contrasting with strong growth in the first month of 2010. Subsequently, suppliers' delivery times lengthened at the slowest rate in nine months as demand for raw materials moderated. The fall in purchasing also reflected a utilisation of existing pre-production inventories, which fell at the fastest rate in fifteen months.

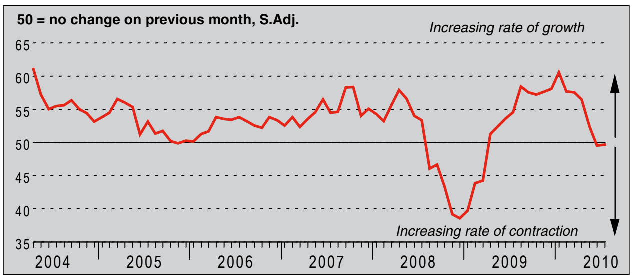
HSBC China Purchasing Managers' Index™ (PMI™)

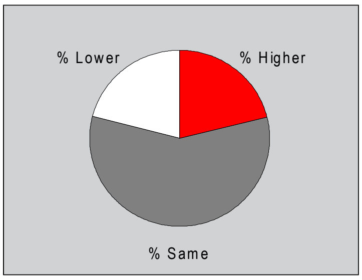


The HSBC China Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new 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.

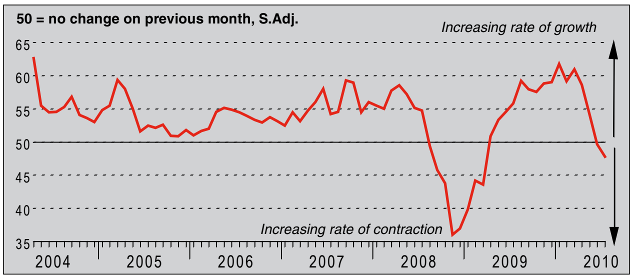


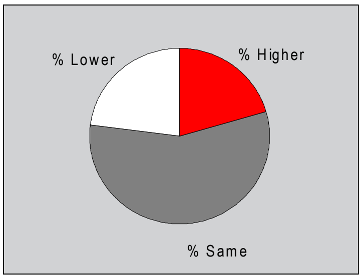


The seasonally adjusted Output Index remained below the neutral level of 50.0 in July, pointing to a second successive monthly decline in Chinese manufacturing production. Although only fractional, the rate of decline contrasted with near-record output growth registered at the start of the year. Of those firms that reported a decline in production, most attributed this to fewer new business wins. Some manufacturers in the Clothing & Textiles sector reported that output was restricted by a reduced supply of labour at their plants.

New Orders Index

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

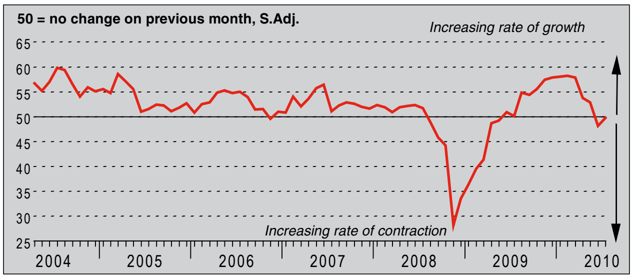


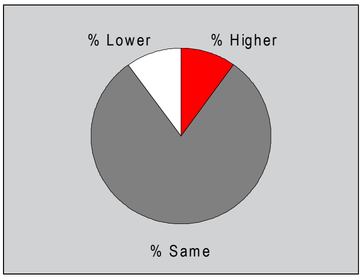


The level of new business received by Chinese manufacturers fell again in July, extending the current period of decline to two months. The pace of reduction in new orders was modest, but the fastest since March 2009. Exactly 23% of panellists reported a decrease in new orders since June, which they generally attributed to lacklustre client demand. The seasonally adjusted New Orders Index has now fallen nearly fourteen points since posting a near-record high at the beginning of 2010.

New Export Orders Index

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

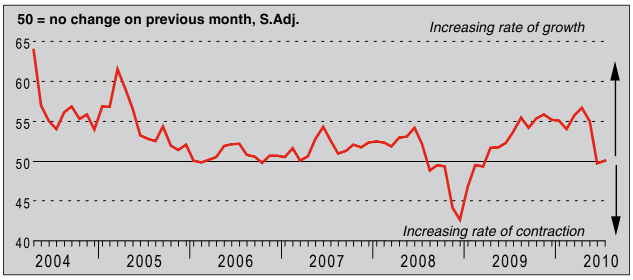


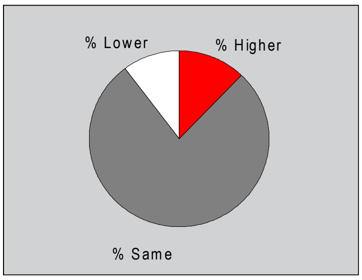


After adjusting for seasonal factors, the New Export Orders Index remained below the neutral 50.0 threshold in July, signalling a further decline in new business placed by foreign clients. Although only fractional, the pace of decrease contrasted with strong growth recorded around the turn of the year. Those survey participants that reported a decline in new export business often linked this to a reduction in global trade flows, with demand weakness reported from the US and Europe.

Backlogs of Work Index

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

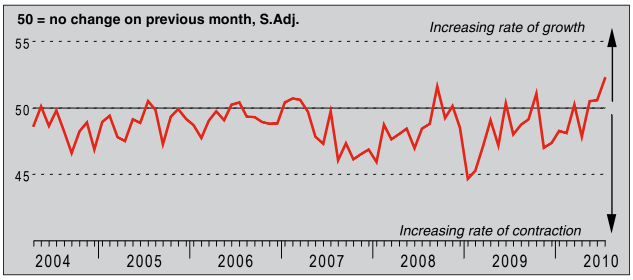


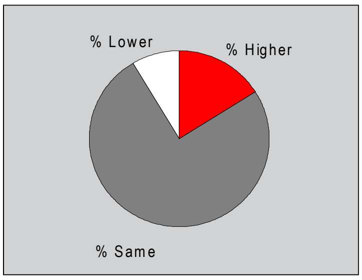


The seasonally adjusted Backlogs of Work Index signalled that outstanding business in the Chinese manufacturing sector rose at a negligible rate in July, following a fractional decline in the previous month. The majority of panellists (almost 78%) reported that unfinished business levels remained unchanged since June. Anecdotal evidence suggested that reduced new business wins had enabled firms to complete work-in-hand (but not yet completed).

Stocks of Finished Goods Index

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

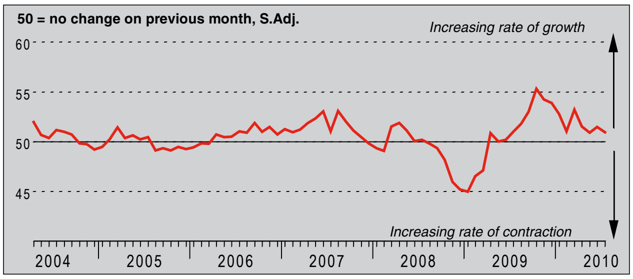


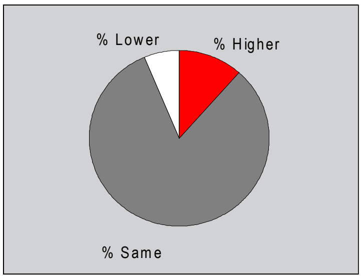


Stocks of finished goods in the Chinese manufacturing sector rose for the third month running in July. Exactly 16% of panellists reported a rise in post-production inventories since June, versus almost 9% that recorded a decrease. As a result, the rate of stock accumulation accelerated to the fastest since the start of the series in April 2004. Where an increase in finished goods holdings was signalled, survey participants commonly linked this to slower-than-expected sales.

Employment Index

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

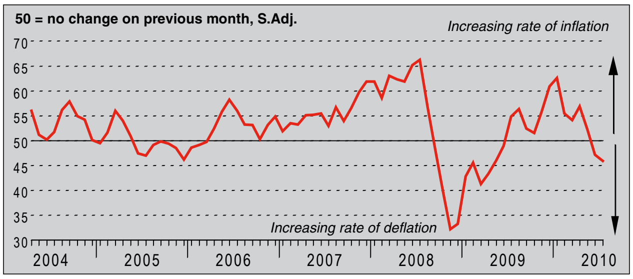


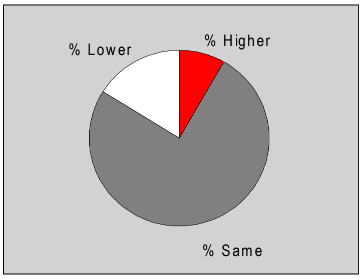


Although new order levels fell further in July, Chinese manufacturers continued to add to their workforce numbers on average. However, the rate of job creation was only marginal, and the second-slowest of the past year. Company expansion plans were cited by panellists as the main factor supporting employment growth in the latest survey period. Those panellists that reported a decrease in staffing levels mentioned that employees had left due to low salary payments.

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.

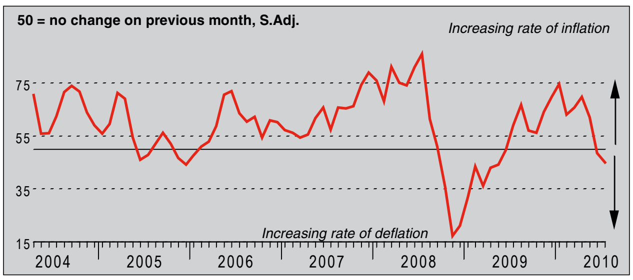


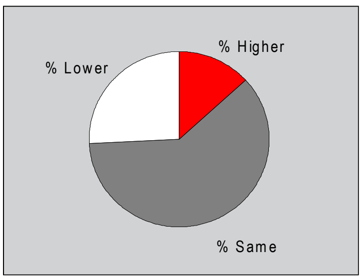


The seasonally adjusted Output Prices Index remained below the neutral 50.0 threshold in July, pointing to a further reduction in prices charged by Chinese manufacturing firms. The rate at which companies reduced their factory gate prices was solid, and the steepest in fifteen months. Evidence provided by the survey panel indicated that lower output charges reflected a combination of increased competition for new business and falling raw material prices.

Input Prices Index

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

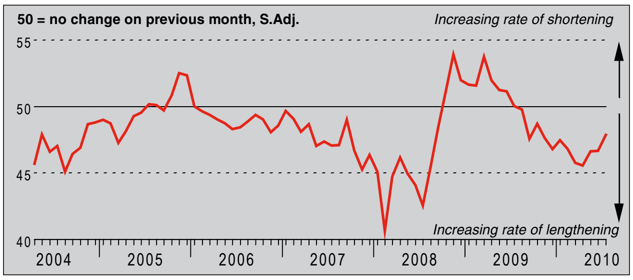


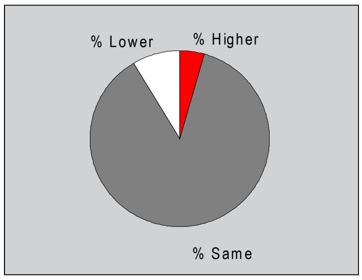


Average input costs faced by Chinese manufacturing firms fell for the second month running in July. Almost 26% of the survey panel reported a decrease in cost burdens from the previous month, around double the proportion that signalled a rise. The rate of input price deflation was solid, and the steepest since May 2009. Lower raw material prices were cited by many panellists as the key driver of deflation. Respondents commented that deflation mainly emanated from domestic 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.

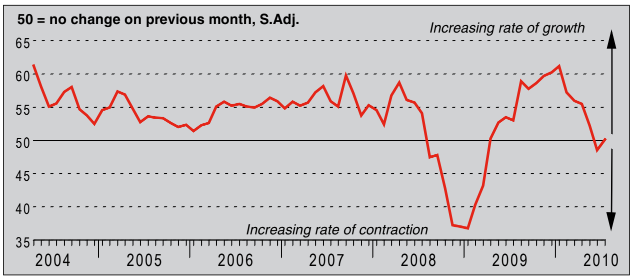


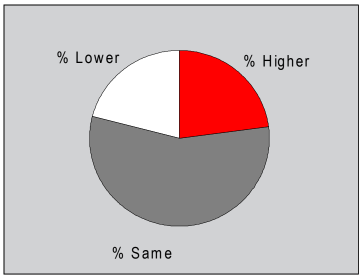


The average time taken by suppliers to deliver inputs to Chinese manufacturing firms lengthened in July. Nonetheless, the rate at which vendor performance deteriorated was the slowest in nine months. Around 9% of companies monitored by the survey reported a lengthening of delivery times since June, approximately double the proportion that signalled faster lead times. Delivery delays were primarily linked by panellists to a lack of supply at vendors. Some panellists also cited transportation difficulties.

Quantity of Purchases Index

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

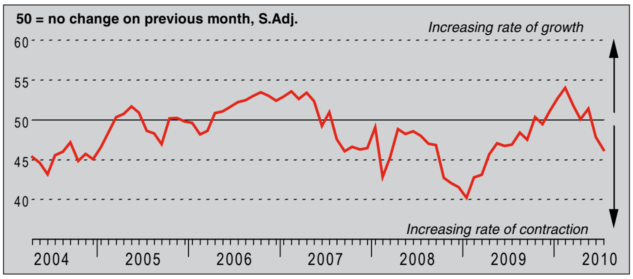


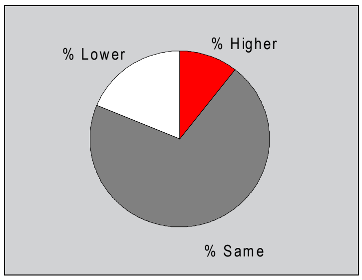


According to the latest data, purchasing activity among Chinese manufacturing firms increased in July, following a modest decline in the previous month. However, the rate of expansion was only fractional, and much slower than in January, when growth of input buying soared to a near-record. Survey participants commented that negligible purchasing growth predominantly reflected falling intakes of new business and a subsequent drop in output requirements.

Stocks of Purchases Index

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





Stocks of semi-manufactured goods and raw materials in the Chinese manufacturing sector fell for the second successive month in July, with almost 19% of firms reporting a decrease since June. The rate at which manufacturers reduced their input inventories was solid, having quickened to the fastest since April 2009. Where a reduction in stock levels was signalled, companies generally attributed this to policies aimed at utilising existing stocks 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: 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.

Warning