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## HSBC China Manufacturing PMI™

Manufacturing output fell for the first time since July 2010.

### Key findings:

- Marginal decline in production levels signalled.
- New export business fell at fastest rate in twenty-seven months.
- Input cost inflation eased sharply to eleven-month low.

Manufacturing production in China fell during June, as total new order growth continued to moderate. On the inflation front, price pressures cooled noticeably, with both input and output prices rising at only modest rates.

The seasonally adjusted HSBC *Purchasing Managers' Index™* (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – fell to an eleven-month low of 50.1 in June, from 51.6 in May, signalling only a fractional improvement in manufacturing sector operating conditions. The index averaged its lowest quarterly reading since Q2 2009 in the second quarter.

June data signalled a decline in manufacturing production for the first time since July 2010, although the pace of reduction was only marginal. The index measuring trends in factory output has now fallen in seven of the past eight months since last October's peak. A drop in production levels in part led to manufacturers reducing their stocks of finished goods, with the rate of depletion quickening to the fastest since November 2010.

June's survey indicated a further moderation in overall new business growth. The latest increase in new orders was only marginal, and the slowest in the current eleven-month period of growth. Moreover, new export business decreased for the second month running, and at the most marked rate since March 2009. Those survey respondents that recorded a decline

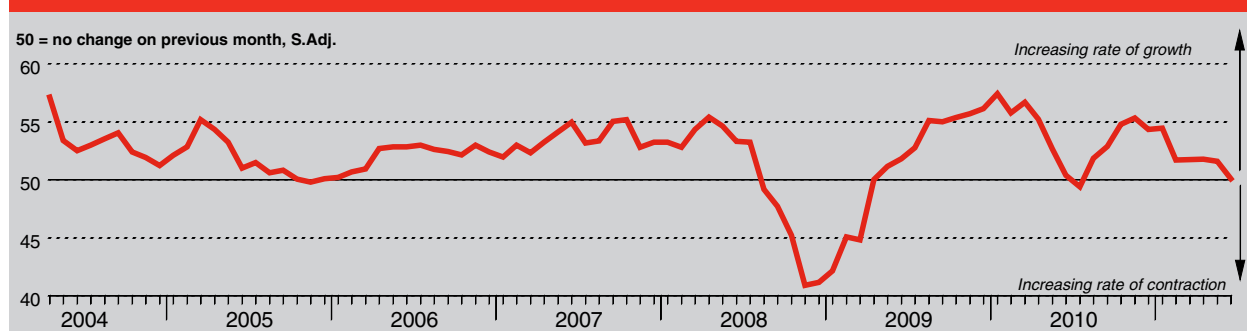
in new business from abroad attributed this to subdued global demand.

Employee numbers in the Chinese manufacturing sector fell in June, ending a three-month period of growth. That said, the rate of job shedding was only slight. Where a fall in staffing levels was signalled, this was commonly linked by panellists to lacklustre growth of new business. There were also reports of employee retirements and resignations.

Reflective of lower output requirements, the quantity of inputs acquired by manufacturing firms fell for the first time in twelve months. Consequently, stocks of purchases in the sector decreased for the sixth month in succession, and at a solid rate. Some companies also reported utilising stock holdings in an attempt to mitigate against delays in the supply chain. This was signalled by a further deterioration in average vendor performance during the latest survey period. However, the rate of delivery time lengthening was the slowest in three months.

Higher raw material prices continued to push up average costs faced by manufacturers during June. However, the rate of input price inflation moderated sharply to the slowest in eleven months, with the relevant index falling by more than eight points from one month earlier. The rate at which manufacturing firms raised their factory gate charges eased accordingly, and was the slowest in the current eleven-month period of rising charges.

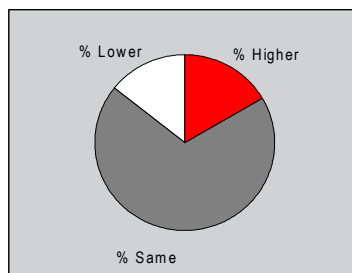
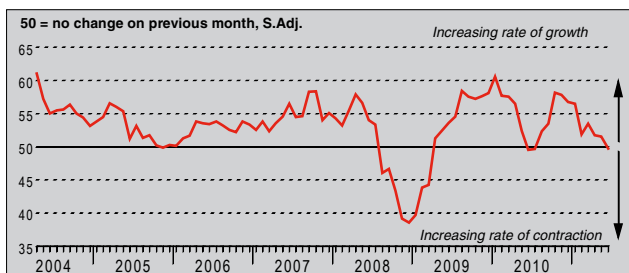
HSBC China *Purchasing Managers' Index™* (PMI™)



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. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

### Output Index

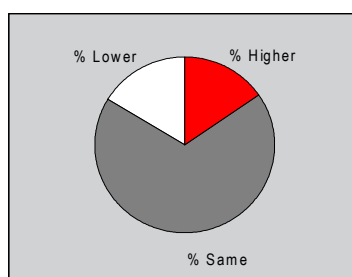
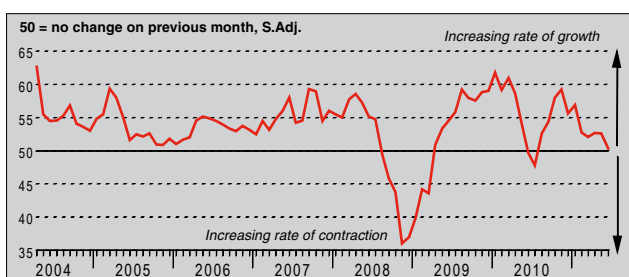
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in China fell marginally during June, with the seasonally adjusted Output Index posting below the neutral 50.0 threshold for the first time in eleven months. Anecdotal evidence provided by survey respondents suggested that the fall in production reflected lacklustre growth of incoming new business. Machinery maintenance, and shortages of both electricity and raw materials were also cited as having contributed to the overall decline.

### New Orders Index

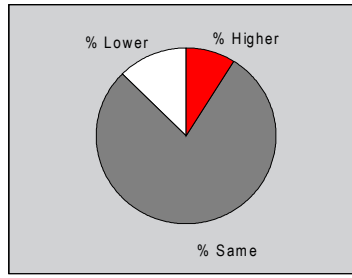
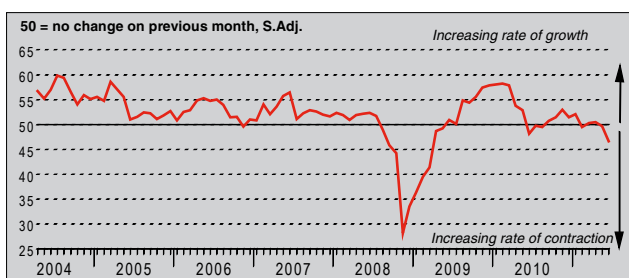
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



Growth of incoming new business in the Chinese manufacturing sector eased for a second successive month during June. The seasonally adjusted New Orders Index pointed to only a marginal rate of expansion that was the slowest in eleven months of growth. Moreover, the index averaged its lowest quarterly reading since Q3 2010. According to survey respondents, the moderation in new order growth predominantly reflected a continued softening in market demand.

### New Export Orders Index

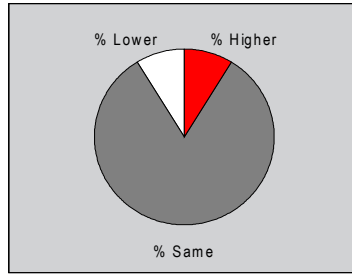
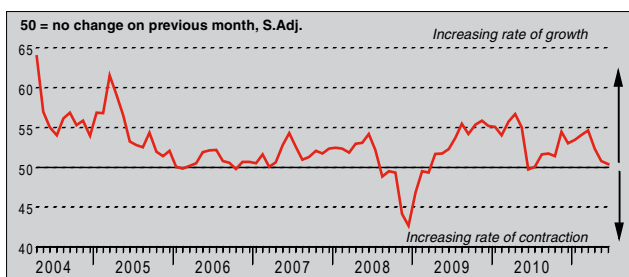
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Amid reports of lacklustre global demand, a net fall in manufacturing exports was signalled during June. A number of companies also reported that the earthquake in Japan had contributed to the latest decline in new export orders. The seasonally adjusted New Export Orders Index dropped to a twenty-seven month low, a level indicative of a solid rate of decline. The index has now posted below the neutral level of 50.0, signalling contraction, for two months in succession.

### Backlogs of Work Index

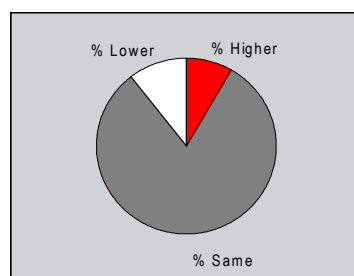
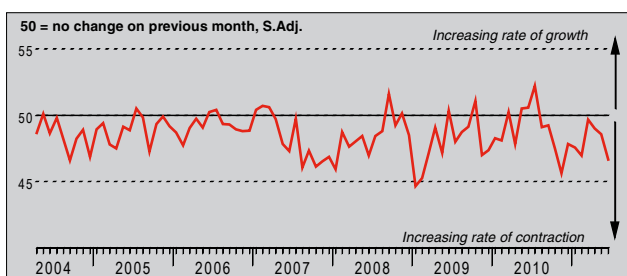
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index signalled a continued increase in outstanding business held by Chinese manufacturing firms during June. However, the rate at which backlogs were accumulated was only marginal, and eased to the slowest in eleven months. Moreover, the index was below the long-run series average. Anecdotal evidence suggested that the weaker increase in work-in-hand reflected a further moderation in total new order growth.

### Stocks of Finished Goods Index

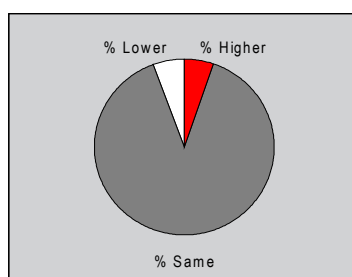
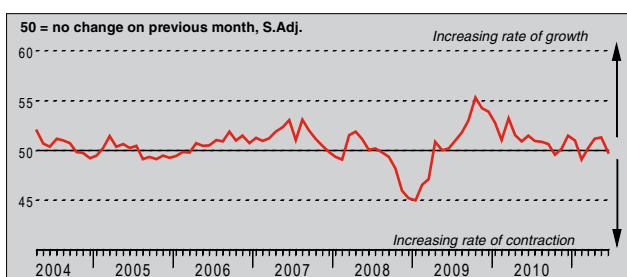
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



After adjusting for seasonal variation, the Stocks of Finished Goods Index signalled a decline in post-production inventories for the eleventh successive month during June. The rate of inventory depletion was solid, and accelerated for the third month running to the fastest since November 2010. Survey participants mentioned that the latest reduction in stocks of post-production goods reflected a decline in manufacturing output.

### Employment Index

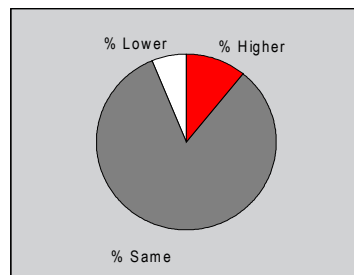
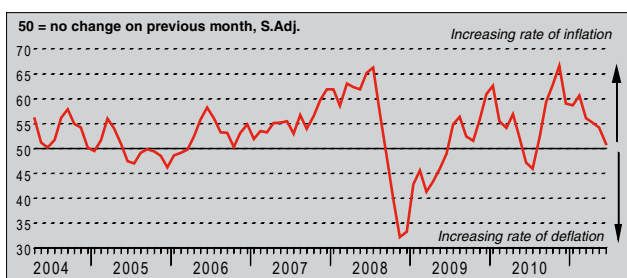
Q. Please compare the level of employment at your unit with the situation one month ago.



Employee numbers in the Chinese manufacturing sector fell for the first time in four months during June, although the rate of job shedding was only fractional. The vast majority of panellists (around 89%) reported no difference in staffing levels from one month earlier. Manufacturing firms that reported a decrease in workforce numbers often linked this to falling new business. There were also reports of employee retirements and resignations.

### Output Prices Index

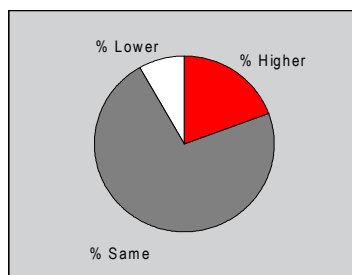
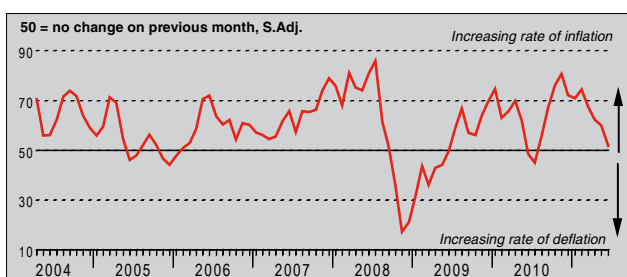
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Chinese manufacturers for their finished goods rose again during June, extending the current period of inflation to eleven months. Reports from survey respondents suggested that rises in raw material costs had resulted in higher factory gate charges. However, output price inflation mirrored that of average costs by easing for the fourth month running to only a modest rate. Furthermore, the latest increase was slower than the long-run series average.

### Input Prices Index

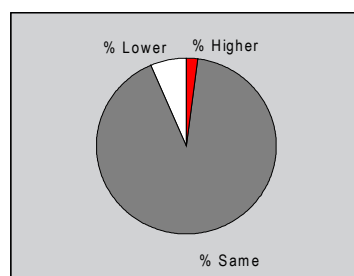
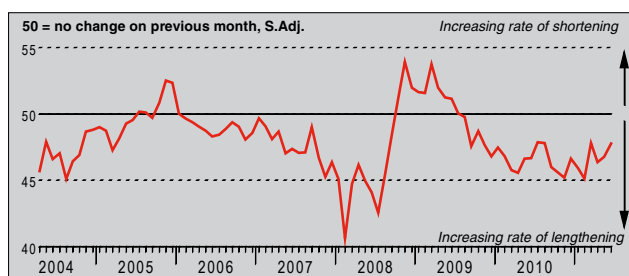
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input costs faced by Chinese manufacturers rose further in June, with the seasonally adjusted Input Prices Index posting above the neutral 50.0 threshold for the eleventh month running. Higher raw material and fuel prices were cited as drivers of inflation in the latest survey period. However, the index dropped more than eight points from one month earlier, signalling a sharp easing in the rate of overall inflation. The latest increase in purchase prices was only modest, and markedly lower than the long-run trend.

## Suppliers' Delivery Times Index

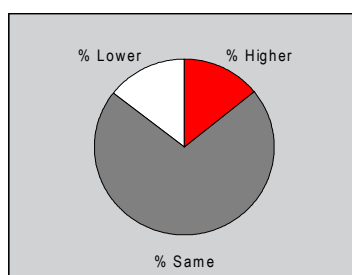
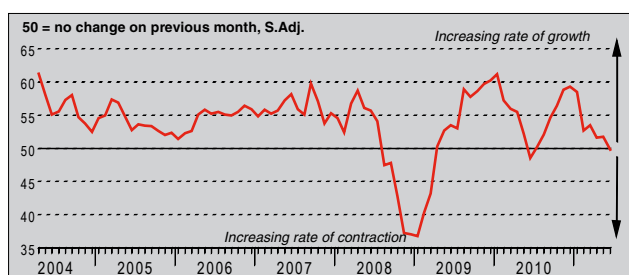
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by suppliers to deliver inputs to Chinese manufacturing firms lengthened for the twenty-third successive month during June. Nonetheless, the rate of deterioration in vendor performance was the slowest since March. Of those panellists that recorded a delay in the receipt of inputs (almost 7%), many linked this to a lack of supply at vendors. Electricity shortages and tight credit conditions were also cited as having limited the ability of suppliers to meet delivery schedules.

## Quantity of Purchases Index

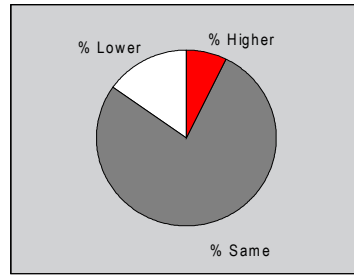
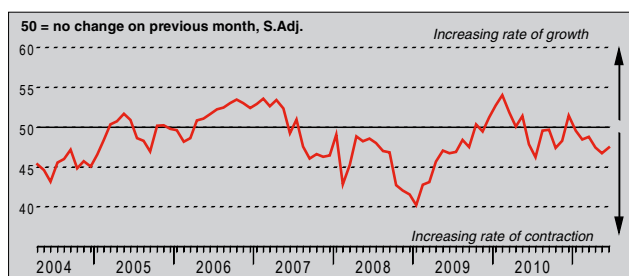
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The amount of inputs acquired by Chinese manufacturers fell in June, following an eleven-month period of growth. However, the seasonally adjusted Quantity of Purchases Index was at a level indicative of only a marginal rate of contraction. The index averaged its lowest quarterly reading since Q3 2010, and has now fallen almost nine points since the start of the year. Where a decline in purchasing was signalled, survey participants generally attributed this to lower output requirements.

## Stocks of Purchases Index

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



Stocks of raw materials and semi-manufactured goods continued to fall in June, with around 15% of panellists signalling a decline compared to the previous month. This compared to 7% that indicated a rise. The rate at which firms reduced their inventory holdings was solid. Stock levels have now fallen throughout 2011 to date. Anecdotal evidence provided by the survey panel suggested that inventory depletion reflected reduced input buying.

## 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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