

Embargoed until: 10:30 (BEIJING), 30 September 2011

## HSBC China Manufacturing PMI™

September data signal continued stagnation of China's manufacturing sector

### Key findings:

- Marginal rise in manufacturing output recorded
- New export business declines for fifth month in succession
- Input cost inflation hits four-month high

The stagnation of China's manufacturing sector continued in September, with output growth constrained by lacklustre demand from both domestic and external clients. Growth of purchasing and outstanding business softened as a result, while stocks of finished goods fell for the fourteenth month in succession. On the price front, average input costs rose at the fastest rate in four months. Output charge inflation quickened accordingly.

After adjusting for seasonal variation, the *HSBC Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – held steady at 49.9 in September, signalling a negligible rate of deterioration in manufacturing sector operating conditions. Moreover, the index averaged its lowest quarterly reading since Q1 2009.

Manufacturing production in China continued to rise during September. However, for the second month in succession, the rate of output growth was only fractional. Panellists commonly linked the subdued increase in production to fewer intakes of incoming new business.

Respondents indicated that muted demand conditions had contributed to the decline in overall new business, which was the second in as many months. However, the pace of reduction in new orders was only marginal. Similarly, new export business at manufacturers fell at a negligible rate. Where a reduction in

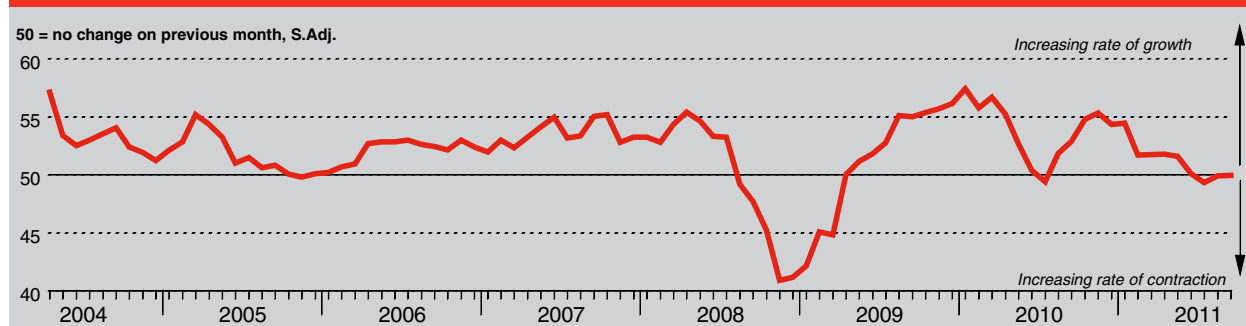
foreign order levels was recorded, this was commonly linked to sluggish demand from external clients.

Reduced levels of new orders led to a moderation in outstanding business growth during September, with the latest increase the slowest in 14 months. Meanwhile, staffing levels decreased fractionally, with panellists attributing job shedding to employee resignations, retirements and, in some cases, company downsizing. Manufacturers that added to their workforce numbers mentioned business expansion plans.

Growth of input buying eased to a marginal rate during September, mainly reflecting a stagnation of manufacturing output. Consequently, the rate at which supplier performance deteriorated eased to the joint-slowest in the current 26-month period of longer lead times. Stocks of purchases decreased again in September, extending the current period of decline to 16 successive months. However, the rate of stock depletion eased to the weakest since January.

Average input costs rose sharply in September, with the rate of inflation quickening to a four-month high. Moreover, the latest increase was only slightly slower than the long-run series average. Panellists cited higher raw material prices as the key driver of inflation. Manufacturers continued to pass on increased costs to clients through higher average tariffs. The rate of output price inflation was solid, but much slower than that seen for input prices.

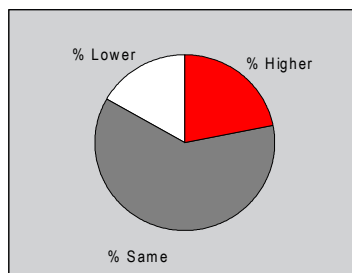
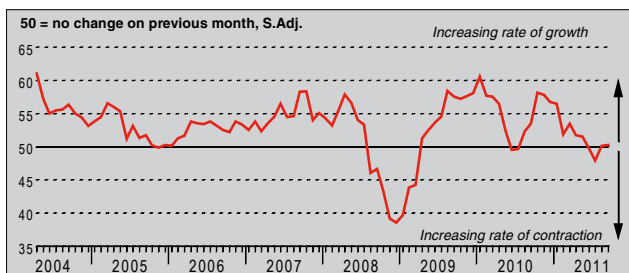
### HSBC China Purchasing Managers' Index™ (PMI™)



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

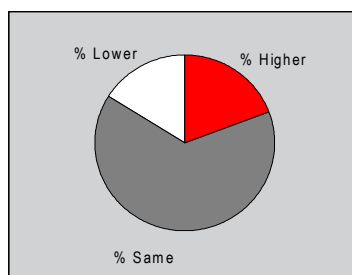
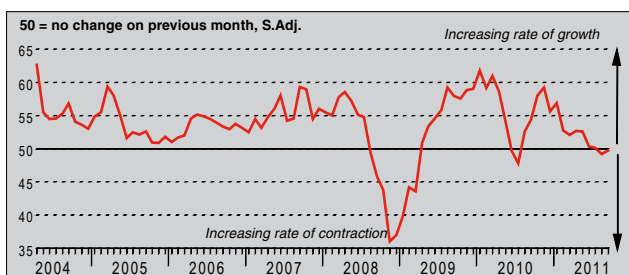
Q. Please compare your production/output this month with the situation one month ago.



After adjusting for seasonal variation, the Output Index remained above the neutral 50.0 threshold in September, signalling a further rise in Chinese manufacturing production. However, for the second month in succession, the index was at a level indicative of a only marginal rate of growth. Moreover, the index averaged its lowest quarterly reading since Q1 2009. Panellists linked subdued output growth to weak intakes of new business.

### New Orders Index

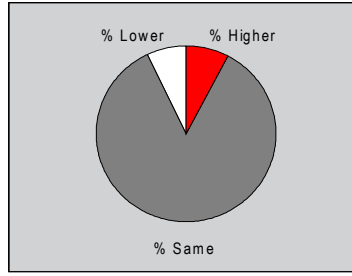
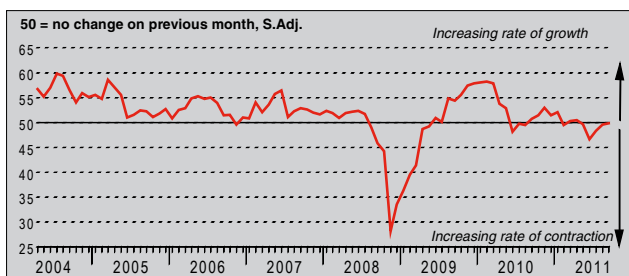
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



September data signalled a reduction of incoming new business received by Chinese manufacturers, with the seasonally adjusted New Orders Index posting below the 50.0 no-change mark for the second month in a row. Nonetheless, the pace of reduction in new orders was only marginal. Those companies that reported a drop in new order levels often mentioned that this reflected soft client demand from both domestic and external markets.

### New Export Orders Index

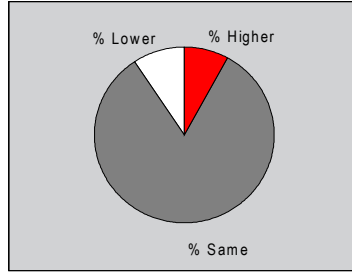
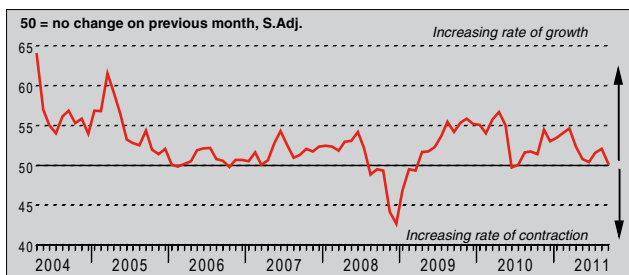
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the neutral 50.0 value for the fifth month in succession during September, signalling a further reduction in the level of new export business at Chinese manufacturers. However, the rate of decline was negligible, with the vast majority of panellists (around 85%) reporting no difference in foreign order levels since the preceding month. Companies linked the latest decline in new export business to sluggish global demand conditions.

### Backlogs of Work Index

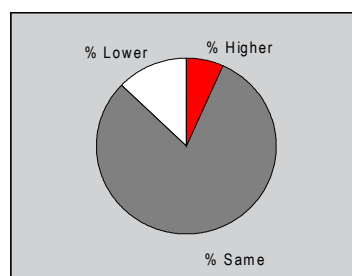
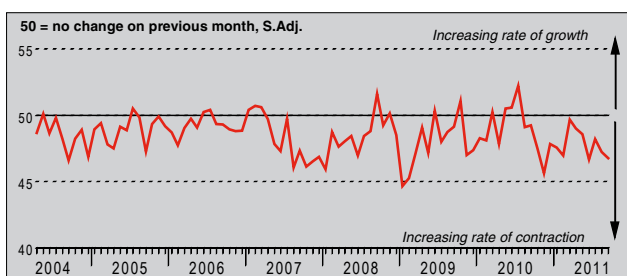
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index signalled a continued increase in outstanding business held by Chinese manufacturing firms during September. Nonetheless, the rate at which backlogs of work were accumulated was only marginal. Moreover, the index reading was the lowest since July 2010, and below the long-run average for the survey. Anecdotal evidence suggested that the weaker increase in work-in-hand reflected a lower level of new business and corresponding spare capacity.

## Stocks of Finished Goods Index

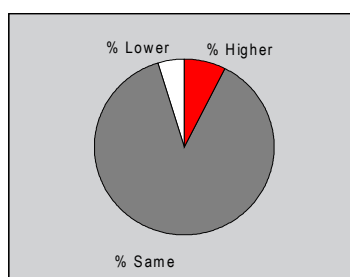
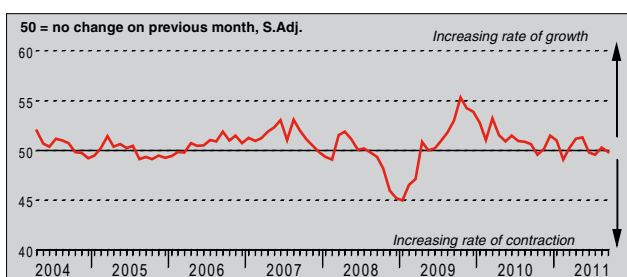
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



After accounting for seasonal trends, the Stocks of Finished Goods Index signalled a decline in post-production inventories for the fourteenth successive month during September. The rate of inventory depletion was solid, and accelerated for the second month running to the fastest since June. Survey participants mentioned that the latest reduction in stocks of post-production goods reflected a stagnation of manufacturing production.

## Employment Index

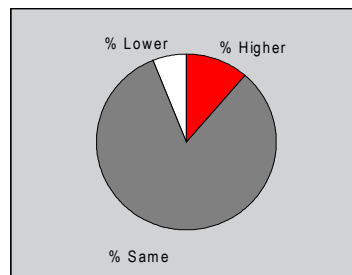
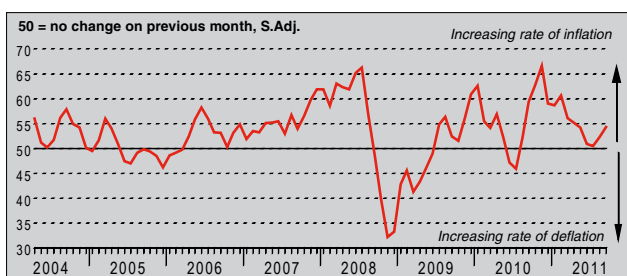
Q. Please compare the level of employment at your unit with the situation one month ago.



Employee numbers in the Chinese manufacturing sector fell at a negligible rate in September, with the vast majority of panellists (approximately 88%) signalling no change in headcounts since the preceding month. Where a fall in staff levels was recorded, panellists linked this to resignations, retirements and, in some cases, redundancies due to company downsizing. Where employment growth was noted, respondents mentioned business expansion plans and graduate intakes.

## Output Prices Index

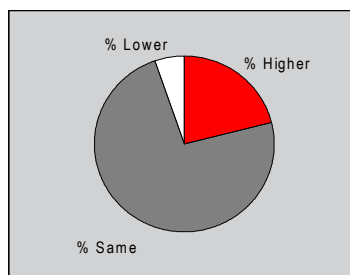
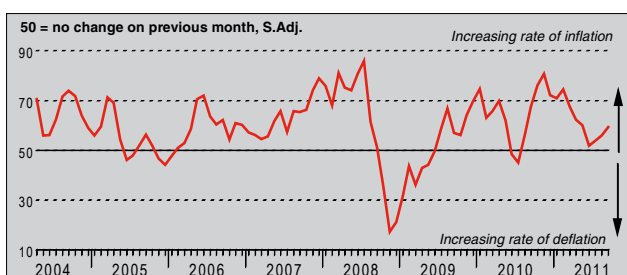
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Chinese manufacturers for their finished products rose solidly in September, with the rate of inflation accelerating to a four-month high. The seasonally adjusted Output Prices Index has now posted above the 50.0 no change value, signalling inflation, for 14 months in succession. According to survey respondents, the rise in output prices was mainly due to firms passing on higher input costs to their clients. However, the rate of charge inflation remained weaker than that seen for input prices.

## Input Prices Index

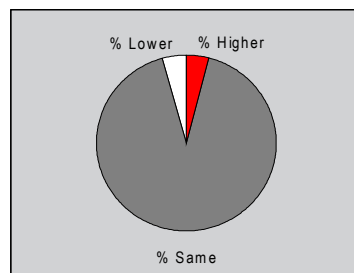
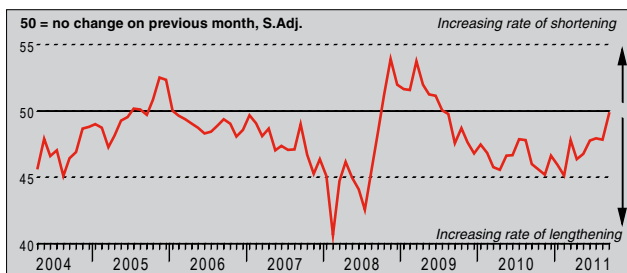
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



September data signalled another rise in average input costs faced by Chinese manufacturing firms in September, with exactly 21% of the survey panel recording a rise since the preceding month. The rate of input price inflation was sharp, and accelerated for the third successive month to the strongest since May. Companies that reported an increase in input prices generally commented on higher raw material costs. Anecdotal evidence suggested that inflation emanated from domestic markets in the latest survey period.

## Suppliers' Delivery Times Index

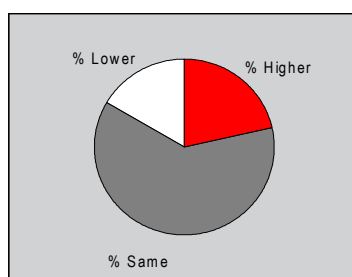
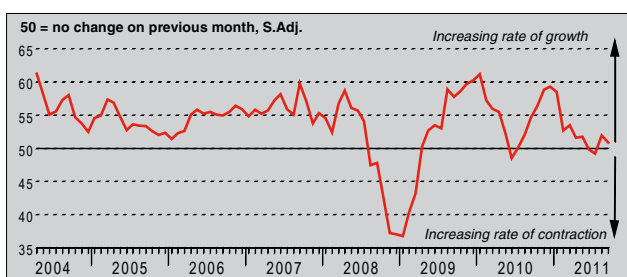
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by suppliers to deliver inputs to Chinese manufacturing firms lengthened for the twenty-sixth successive month during September. There were reports that tight credit conditions had restricted the ability of some suppliers to meet delivery schedules. However, the rate of lead time lengthening was only slight, and the slowest since August 2009. The vast majority of panellists (almost 92%) reported no change in average vendor performance compared to one month earlier.

## Quantity of Purchases Index

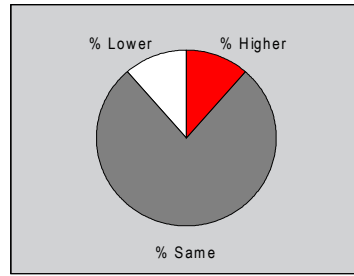
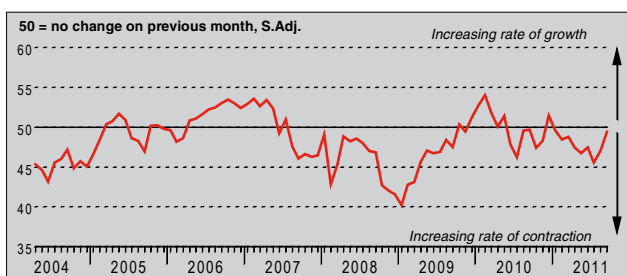
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The amount of inputs acquired by Chinese manufacturers increased for the second successive month in September. However, the seasonally adjusted Quantity of Purchases Index was at a level indicative of only a marginal rate of expansion. Additionally, the index averaged in Q3 its lowest quarterly reading since Q1 2009. The subdued increase in purchasing mainly reflected a stagnation of manufacturing output.

## Stocks of Purchases Index

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



Manufacturers in China further utilised their stocks of raw material and semi-manufactured goods during September. However, the rate of decline was only marginal, and eased to the slowest since January. Of those respondents that recorded a rise in holdings of pre-production goods (around 11%), many attributed growth to higher purchasing. Where a drop in inventory levels was noted, panellists mentioned deliberate stock reduction policies.

## 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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