

HSBC China Manufacturing PMI™

Operating conditions improve for the first time in 13 months

Key findings:

- Output up for first time since July
- Solid growth of new export orders
- Purchasing activity continues to pick up

Data for November signalled an expansion of output in the Chinese manufacturing sector for the first time in four months. New orders and new export orders also rose during November, with the latter increasing for the first time since April. Purchasing activity rose at the quickest pace since March 2011, while stocks of purchases increased for the first time in a year. On the price front, input prices rose for the second month while output charges decreased, albeit marginally.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 50.5 in November, up from 49.5 in October, signalling a marginal improvement of operating conditions in the Chinese manufacturing sector. Moreover, it was the first improvement of operating conditions recorded in 13 months.

Manufacturing output in China increased during November for the first time since July. The rate of expansion was only modest, but the quickest since October 2011. New orders rose for the second month in a row, although at a slightly weaker pace, while new export orders rose for the first time since April. New export orders increased at a marked rate, with over 17% of panellists indicating growth. A number of firms linked the increase to strengthened demand, particularly in Europe and the US.

Backlogs of work continued to fall (the fourth in successive

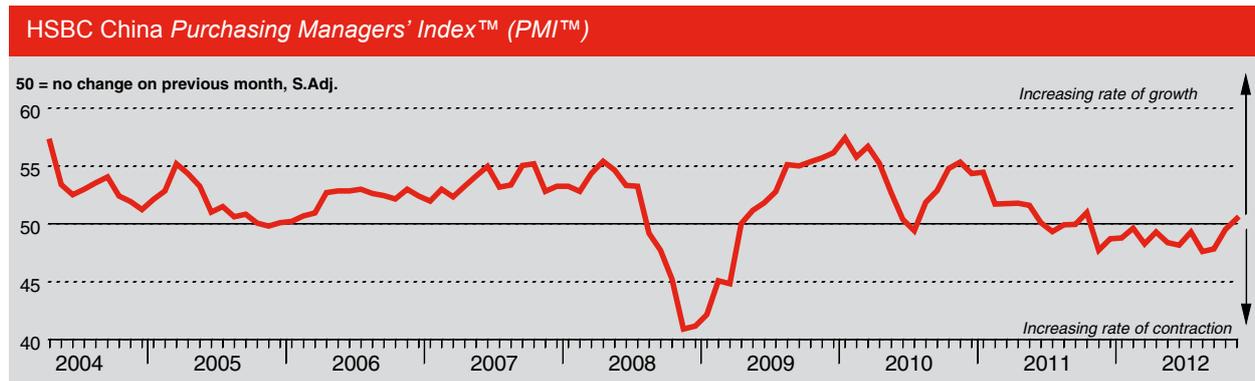
months), although at a marginal pace, while employment levels also fell. The rate of job shedding was only slight, with a majority of panellists (nearly 88%) indicating no change to staff levels.

Vendor performance worsened for the second month in a row. The pace of deterioration was slightly quicker than in October but remained marginal overall. Respondents linked longer average lead times to lower stock levels held by vendors.

Stocks of finished goods fell for the second successive month, and at a slightly quicker pace than in October. Panellists attributed the depletion of stock to an increased number of sales.

Input prices rose for the second month in November, with the pace of inflation easing slightly from October but remaining solid overall. Meanwhile, output charges fell following a slight increase in October. However, the rate of deflation was negligible, with less than 10% of respondents signalling a reduction of tariffs. A number of firms linked lower output charges to competitive market pressures.

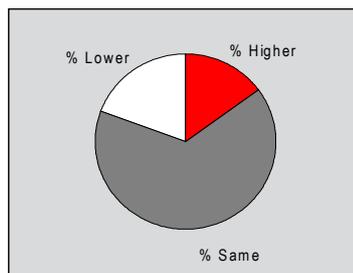
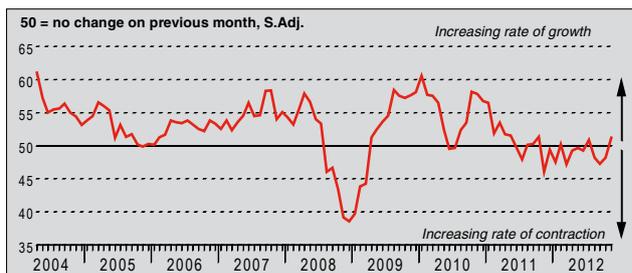
Purchasing activity increased for the second successive month in November, and at a faster pace than in October. Over 18% of panellists signalled a higher level of purchasing activity, with many attributing growth to a higher volume of new orders. Consequently, stocks of purchases also increased, and for the first time in a year.



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

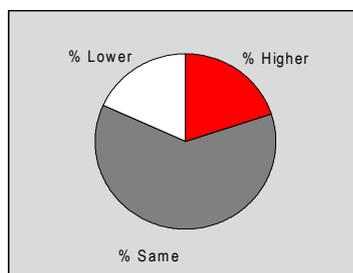
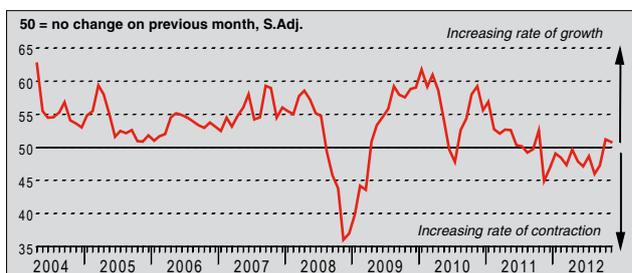
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index signalled an expansion of output in the Chinese manufacturing sector in November. Although the rate of expansion was only marginal it was the first time output had expanded for four months, and was also the quickest rate of expansion since October 2011. Approximately 17% of survey respondents reported higher output, and anecdotal evidence suggested this was linked to rising market demand and the growth of new orders.

New Orders Index

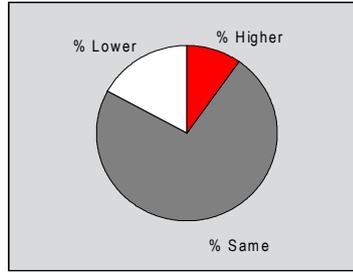
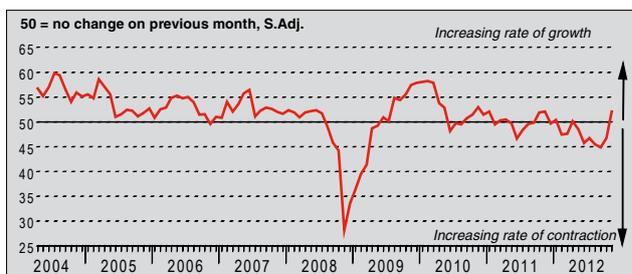
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



Total new orders received at Chinese manufacturers increased during November for the second successive month. After adjusting for seasonality, the growth rate of orders slowed from October and remained marginal. Nearly 19% of panellists reported a higher level of new orders received at their plants, with a number of firms linking the increased amount of orders to strengthened market demand.

New Export Orders Index

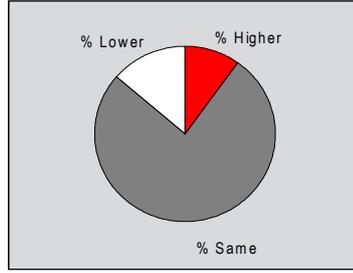
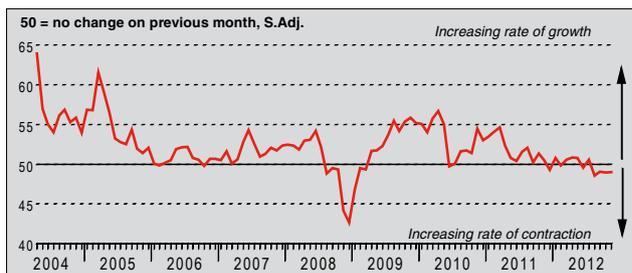
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After adjusting for seasonality, the New Export Orders Index signalled an increased amount of new export orders placed at manufacturing firms during November. This was the first time new export orders had expanded in seven months. The rate of growth was modest but also the fastest in a year, with over 17% of respondents signalling new export order growth. Of those panellists that reported an increase, a number attributed the larger volume of new export orders to increased demand, particularly from Europe and the US.

Backlogs of Work Index

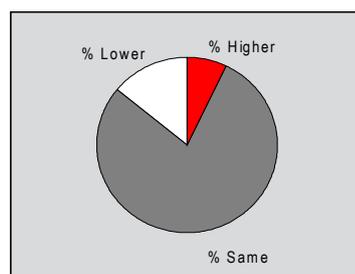
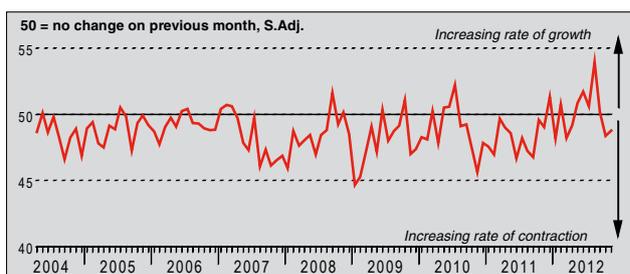
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding business at manufacturing firms in China fell during November for the fourth consecutive month. The rate of backlog depletion was unchanged from October and only marginal. Nearly 13% of respondents reported a lower amount of work-in-hand compared to just over 10% that noted an increase. Anecdotal evidence linked the fall in outstanding work to fewer new current orders.

Stocks of Finished Goods Index

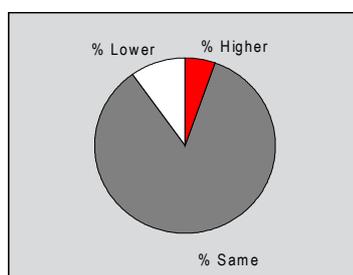
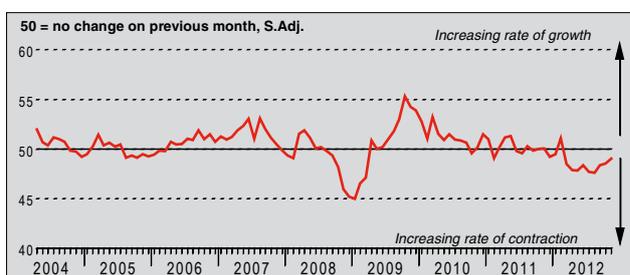
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held at manufacturers declined during November for the second month in a row. The rate of stock depletion eased from October and remained modest. Over 13% of panellists reported a lower volume of stocks in the latest survey, compared to just under 11% that noted an increase. A number of respondents suggested that stocks were used up in response to increased sales.

Employment Index

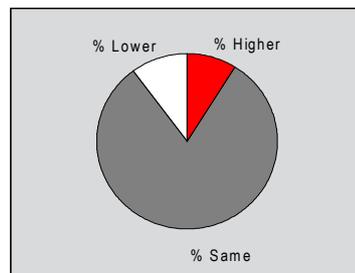
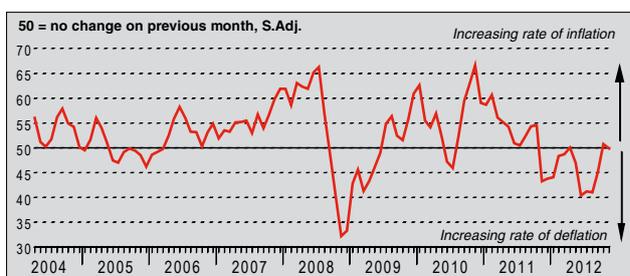
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment levels fell during November for the ninth consecutive month. The rate of job shedding slowed from the previous month, and was only marginal, with just over 7% of respondents indicating lower workforce numbers. Moreover, it was the slowest pace of reduction reported since February. The decline in staff numbers was linked to company down-sizing by some survey respondents.

Output Prices Index

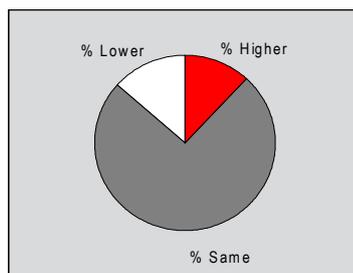
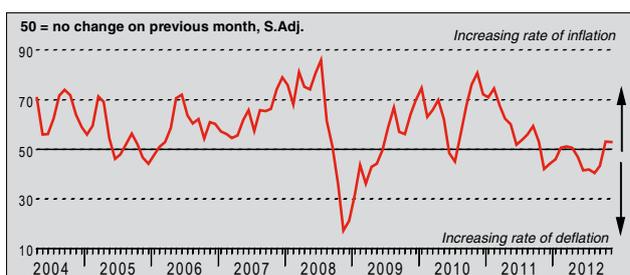
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average tariffs charged by firms fell in November, following a slight increase in October. However, the rate of output charge deflation was negligible, with less than 10% of survey respondents reporting lower output charges in the latest survey period. A number of respondents linked the fall in average tariffs to increased competitive pressures in the market.

Input Prices Index

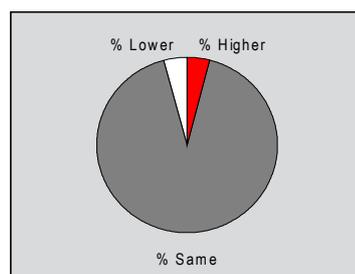
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs rose in the Chinese manufacturing sector for the second month in a row. The rate of input price inflation was similar to October, and remained marked, with over 12% of panellists indicating higher input costs in the latest survey. This compared with just over 10% of survey respondents that indicated a fall in costs. Of those firms reporting inflation, a number suggested this was due to higher raw material costs.

Suppliers' Delivery Times Index

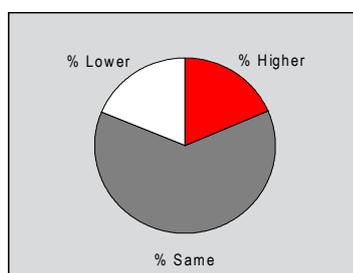
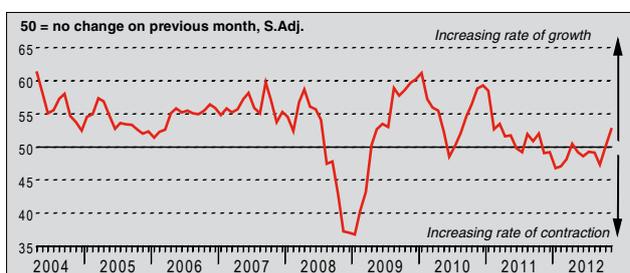
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times worsened during November and for the second month in a row. The rate of deterioration quickened slightly from October, but remained marginal overall. Fewer than 6% of respondents reported longer average lead times compared to just over 4% that recorded shorter times. Anecdotal evidence indicated that the deterioration of supplier performance was due to fewer stocks held by vendors.

Quantity of Purchases Index

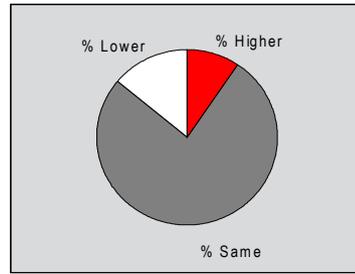
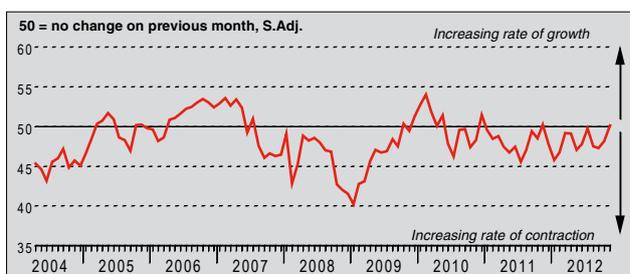
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the manufacturing sector increased during November for the second successive month. Purchasing activity rose at a faster rate than in October, the fastest since March 2011. Over 18% of panellists indicated that input buying at their units had increased, and approximately 15% noted a fall. Some firms linked the greater amount of input buying to a higher volume of new orders.

Stocks of Purchases Index

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



Stocks of purchases rose during November for the first time in a year. After adjusting for seasonality, the rate of stock accumulation was only marginal, with approximately 11% of panellists indicating a higher amount of stocks in the latest survey period. A number of panellists linked the accumulation of stocks to increased purchasing activity in response to higher order volumes.

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 industry contribution to Chinese GDP. 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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