

HSBC China Manufacturing PMI™

Output falls at fastest pace since March

Key findings:

- New export orders fall at fastest rate in 42 months
- Output and input prices continue to fall
- Purchasing activity declines amid weak demand and lower production requirements

Data in September signalled a stronger decline in Chinese manufacturing output, as the volume of new orders fell for the eleventh consecutive month. New export orders declined at the sharpest rate in 42 months amid reports of weak international demand, while lower workloads were linked to a fall in backlogs of work which declined for the second month in a row. Both input prices and output charges continued to decrease sharply during September.

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 47.9 in September, up slightly from 47.6 in August, and signalling an eleventh successive month-on-month deterioration in Chinese manufacturing sector operating conditions. However, the latest data signalled the rate of deterioration eased marginally.

The rate of reduction in manufacturing output in China accelerated during September, signalling the strongest contraction since March. A number of respondents that reported a fall in production levels attributed this to lower order volumes as both domestic and international demand weakened. However, the rate of reduction in new export orders remained stronger than the decline in overall new orders for the fourth successive month. Panellists commented on tough trading conditions in a number of key trading markets.

Consequently, backlogs of work at manufacturing firms were

depleted for the second month in a row, although the reduction in work-in-hand (but not yet completed) was only marginal during September.

Staff numbers decreased for the seventh month in a row. However, the rate of job shedding was relatively modest in September, as a majority of goods producers (nearly 85%) indicated no change in employment levels. Any job cuts were generally linked to reduced production requirements.

Purchasing activity fell in China's manufacturing sector for a fifth successive month during September. The rate at which input buying declined accelerated to the fastest since February.

As a result, stocks of purchases fell in September at the quickest rate since May, as companies sought to utilise inventories wherever possible in production. Meanwhile, average lead times improved for the fifth consecutive month. Survey respondents reported that muted demand for inputs and fewer orders placed to vendors resulted in quicker delivery times.

Input costs faced by manufacturers fell in September for the fifth month running. The rate of decline was slower than in August, but still remained sharp. Panellists attributed this to lower prices for a variety of raw materials.

As a result, Chinese manufacturers reduced their average output charges accordingly. A number of firms also commented on increased competitive pressures. The rate of output price discounting was weaker than August, but remained marked.

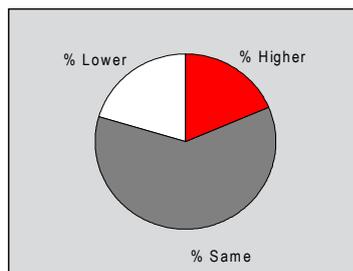
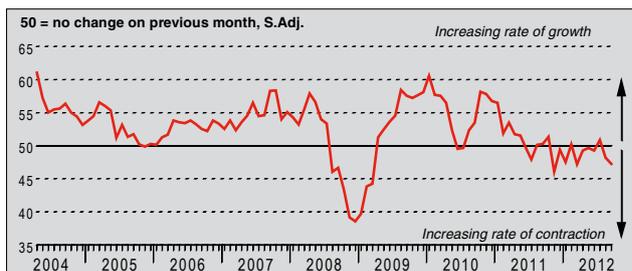
HSBC China Purchasing Managers' Index™ (PMI™)



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

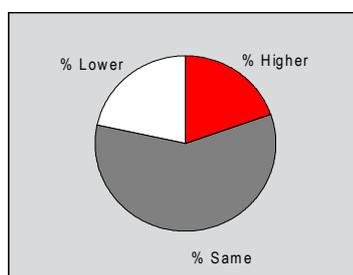
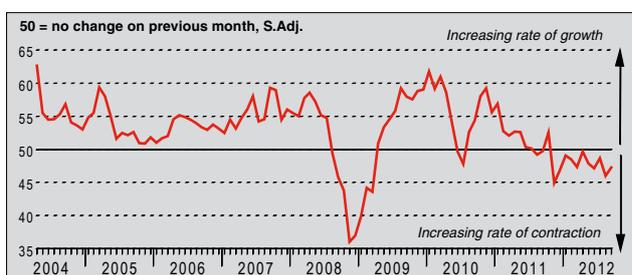
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted data for September signalled a fall in Chinese manufacturing output for the second successive month. The reduction in output was the sharpest in six months. Over 20% of survey respondents reported a fall in production, compared to just over 18% that signalled an increase. Anecdotal evidence suggested the decline in output was linked to weak domestic and international demand, which resulted in lower volumes of new orders.

New Orders Index

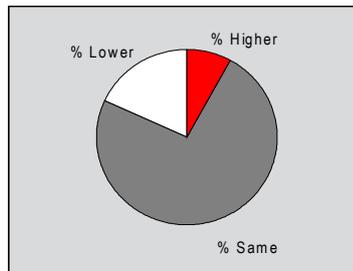
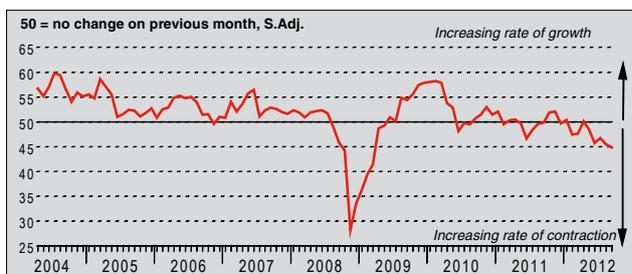
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



After adjusting for seasonal variation, the volume of new orders received by Chinese manufacturers fell in September. This was the eleventh consecutive month that a decrease in orders was recorded, although the rate of reduction slowed in September. Nearly 22% of panellists reported a fall in the volume of new orders, in contrast to less than 20% of respondents that indicated a rise. Some respondents attributed weak demand to deteriorating market conditions.

New Export Orders Index

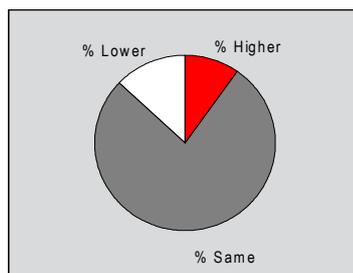
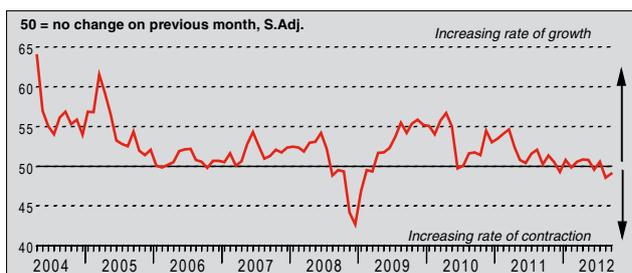
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders fell in September for the fifth month in a row. The latest seasonally adjusted New Export Orders Index signalled that the rate of reduction continued to be sharp and was the fastest since March 2009. Although a majority of panellists (nearly 74%) reported no change in new export orders, over 18% of respondents signalled a fall. A number of firms reported that demand had weakened amongst key trading partners due to a tough economic environment.

Backlogs of Work Index

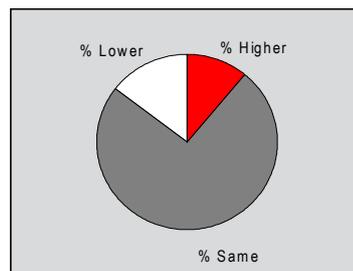
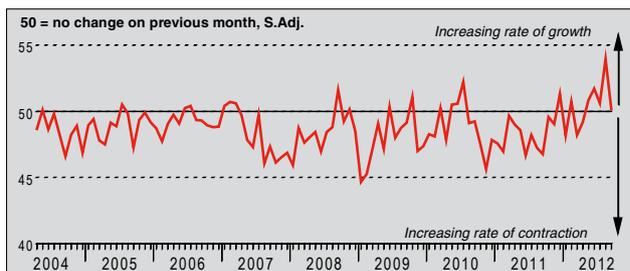
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work for Chinese goods producers fell in September for the second successive month. However, the seasonally adjusted figure signalled the rate of reduction was only marginal. Approximately 13% of respondents indicated that work-in-hand (but not yet completed) decreased, but a vast majority (over 77%) reported backlogs had remained the same. Some firms linked the fall in backlogs to a reduction of new orders which created excess capacity.

Stocks of Finished Goods Index

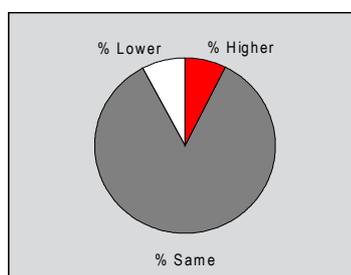
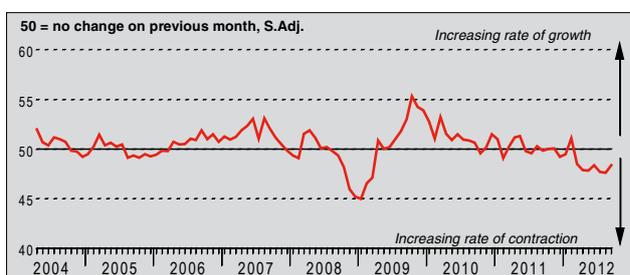
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods in the Chinese manufacturing sector rose for the fifth consecutive month in September. However, the seasonally adjusted Stocks of Finished Goods Index indicated the rate of growth was only marginal, and the slowest in this sequence. Some panellists attributed the (unexpected) increase in inventories to falling sales.

Employment Index

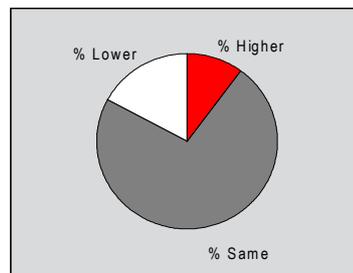
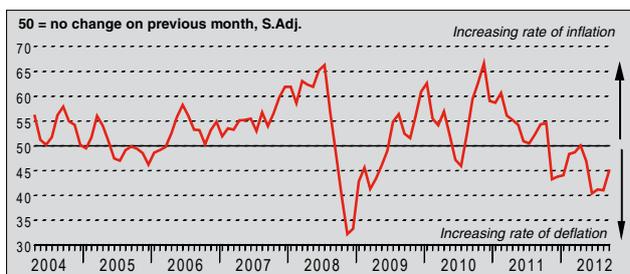
Q. Please compare the level of employment at your unit with the situation one month ago.



After adjusting for seasonality, the Employment Index signalled a further fall in workforce numbers at manufacturing firms during September. The rate of reduction was slower than the previous two months but was still moderate. Although most panellists (nearly 85%) reported no change to their staff levels, around 8% signalled a reduction. Respondents to the latest survey noted that job cuts were linked to reduced production levels.

Output Prices Index

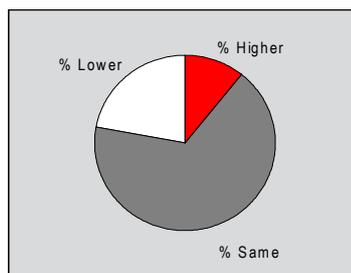
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average prices charged by Chinese manufacturers fell in September for the fifth successive month. The seasonally adjusted data signalled the rate of reduction was slower than in August, but still marked. Over 17% of panellists reported a reduction in output prices, while 10% of respondents signalled an increase. A number of survey respondents attributed lower output prices to falling raw material costs and increased competitive pressures.

Input Prices Index

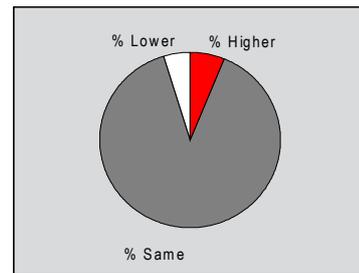
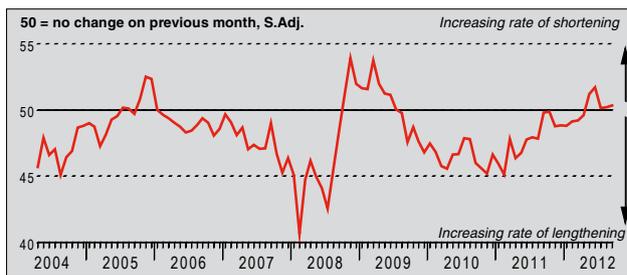
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by China's goods producers fell in September for the fifth consecutive month. Adjusting for seasonality, the rate of reduction was the slowest in four months but still remained sharp. Over 22% of the firms surveyed indicated a decline in average input costs whereas less than 11% of firms experienced an increase. Anecdotal evidence linked the reduction in input costs to lower raw material prices.

Suppliers' Delivery Times Index

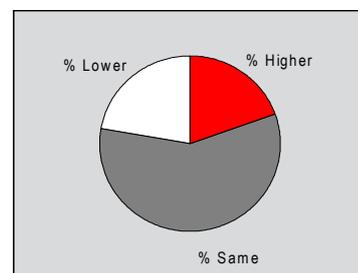
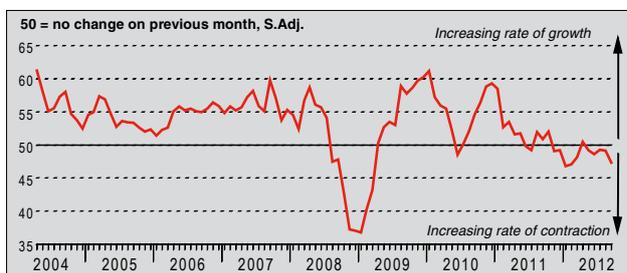
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index signalled average lead times shortened in September for the fifth successive month. However, the average time taken by suppliers to deliver inputs to Chinese manufacturing firms improved only marginally, and at a similar rate to the previous two months. A number of survey respondents suggested that the reduction in average lead times was due to a reduced number of orders placed with suppliers.

Quantity of Purchases Index

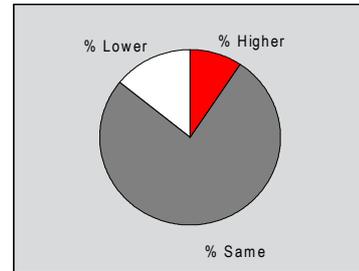
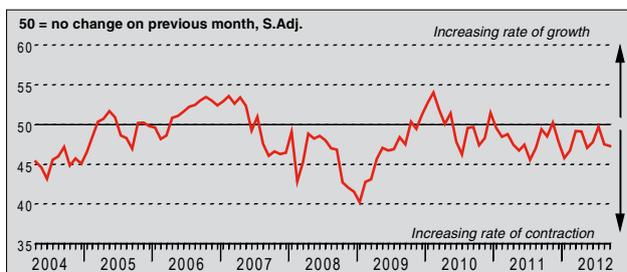
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index remained below the no-change mark of 50.0 for the fifth consecutive month. The rate of reduction accelerated to the sharpest since February, with over 22% of survey respondents indicating a fall in the amount of inputs purchased. Anecdotal evidence suggested that the decline was linked to a reduction in output requirements resulting from weak demand.

Stocks of Purchases Index

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



Stocks of purchases fell for the tenth successive month in September. The seasonally adjusted data indicated that the rate of reduction remained solid and accelerated to the fastest since May. Overall, 14% of respondents reported a fall in stocks of pre-production goods, and just over 9% recorded a rise. Some firms linked the depletion to weaker purchasing activity and increased use of inventories.

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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