

Embargoed until: 09:45 (BEIJING), 1 November 2012

# HSBC China Manufacturing PMI™

Operating conditions deteriorate at marginal pace in October

**Key findings:**

- Modest fall in output signalled
- New orders rise for the first time in a year
- Input costs and output charges increase

October data signalled a fall in Chinese manufacturing output for the third consecutive month, albeit at a modest pace as new orders rose for the first time in a year. Purchasing activity also expanded slightly, but stocks of pre- and post-production goods continued to fall. Employment levels declined modestly, the eighth successive month that a net fall has been recorded. On the price front, input costs and output charges increased for the first time in six months and a year respectively.

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 49.5 in October, up from 47.9 in September, to signal a full year of monthly deteriorations in Chinese manufacturing sector operating conditions. However, with the PMI at an eight-month high, the latest data indicated the rate of deterioration was marginal.

Manufacturing output in China contracted modestly in October, and at a slower rate than in September. New orders grew, albeit marginally, for the first time in 12 months, as nearly 20% of firms reported a higher number of sales in October. Evidence suggested that growth of new orders was due to an increasing number of new clients. However, new export orders declined for the sixth successive month, with the rate of reduction again solid (but slower than in September). Weak demand from Europe and the US was reported.

Backlogs of work fell during October for the third month in a

row. The rate of backlog depletion was marginal and similar to September. Employment levels continued to fall in the latest survey period at a modest rate, with nearly 10% of panellists reporting lower staff numbers. Anecdotal evidence suggested that job losses reflected lower production requirements.

Average tariffs set by manufacturers increased in October for the first time in a year. The increase was only slight, with just under 9% of respondents noting higher output charges. Input costs faced by manufacturers increased for the first time in six months, following a five-month period of deflation. October's rate of inflation was solid, and a number of firms linked this to higher raw material costs.

Average lead times lengthened for the first time in six months, albeit marginally. Survey respondents that experienced longer delivery times attributed deteriorated supplier performance to a rise in the number of orders placed to vendors.

Purchasing activity expanded slightly during October after a five-month period of decline. Over 18% of panellists reported an increased amount of input buying, and a number of these firms suggested this was due to higher order volumes received by plants in October. Meanwhile, stocks of purchases held at manufacturers fell for the eleventh month in a row. Inventories of post-production goods were also down, and for the first time in six months. Anecdotal evidence suggested lower output and stronger-than-expected sales had led to lower warehouse stock levels.

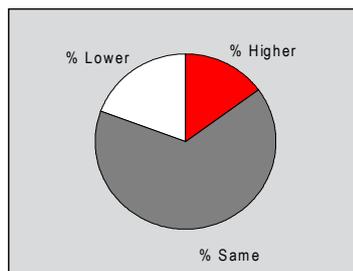
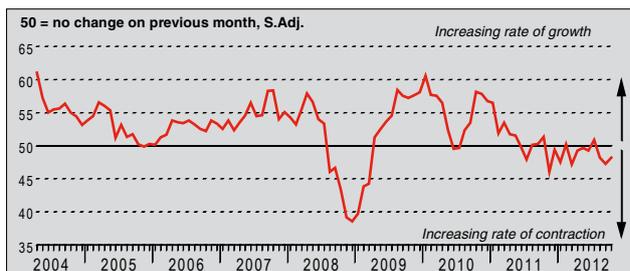
HSBC China *Purchasing Managers' Index™ (PMI™)*



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

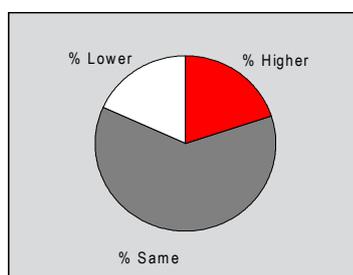
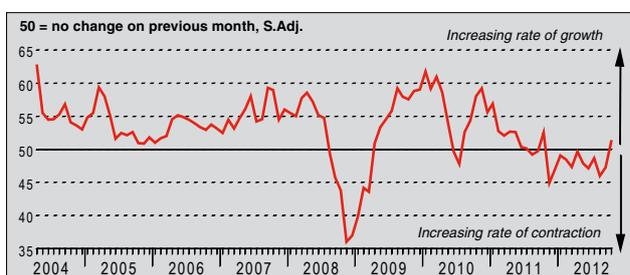
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index signalled a fall of output in the Chinese manufacturing sector during October. However, the rate of contraction slowed from the previous month to a more modest rate. Over 19% of survey respondents recorded lower production in the latest survey period, compared to less than 15% that reported an increase. Anecdotal evidence suggested the fall in output was linked to fewer orders placed with manufacturing plants.

### New Orders Index

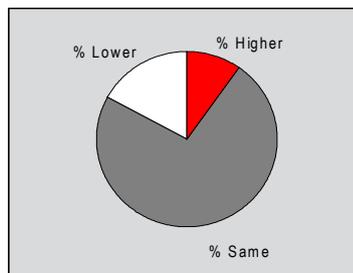
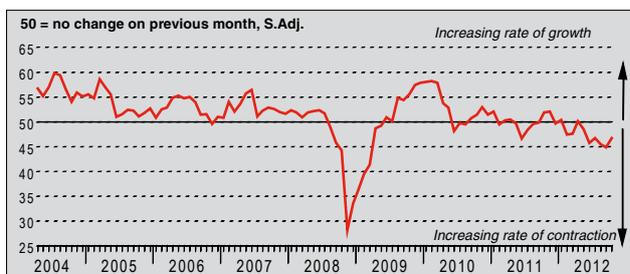
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



The volume of new orders received by Chinese manufacturers increased during October, and for the first time in a year. The seasonally adjusted index indicated the growth rate of new orders was only marginal. However, it was the second-highest index reading in the past 17 months. Nearly 20% of panellists noted an increased amount of new orders, whereas just over 18% reported a fall. A number of firms that recorded an increase in new orders attributed growth to a rising number of new clients.

### New Export Orders Index

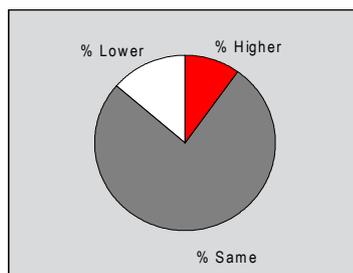
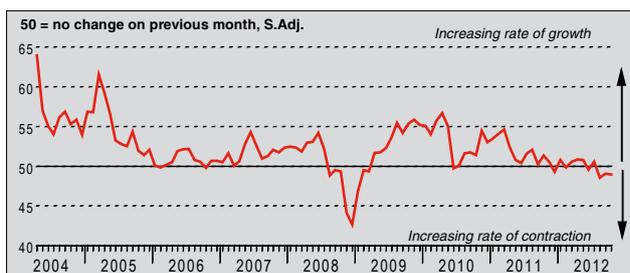
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index signalled a fall in the amount of new export orders placed to manufacturers during October for the sixth successive month. The index indicated that the rate of reduction was slower than in September, posting a three-month high, but remained marked. Over 17% of survey respondents reported a fall in the volume of new export orders, and just under 10% noted an increase. A number of respondents suggested the fall in new export orders was caused by deteriorating global demand, particularly in Europe and the US.

### Backlogs of Work Index

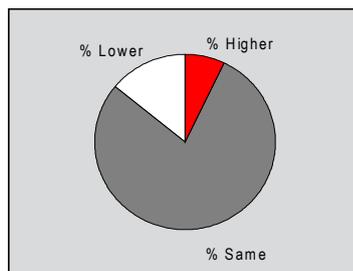
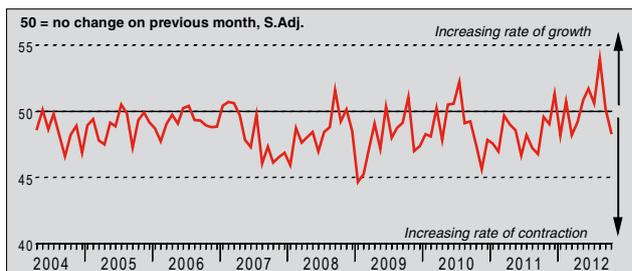
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding business at Chinese manufacturers fell during October, extending the current trend to three months. The seasonally adjusted index signalled that the rate of backlog depletion was only marginal, and broadly similar to September. Nearly 14% of respondents indicated a lower amount of outstanding business at their plants, compared to just under 10% that noted a rise. Some panellists attributed the fall in backlogs to fewer new orders placed at plants during October.

### Stocks of Finished Goods Index

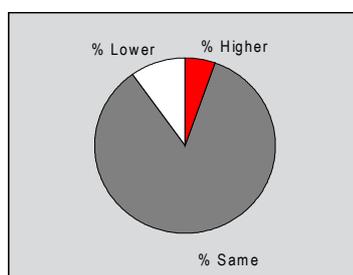
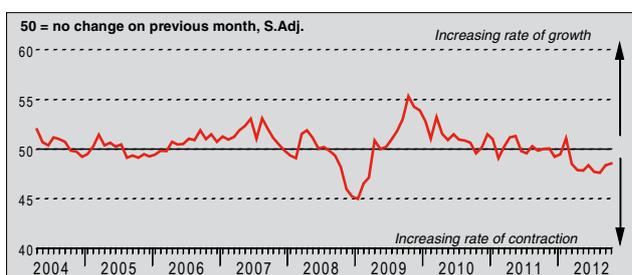
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held at manufacturing plants declined during October and for the first time in six months. After adjusting for seasonality, the rate of reduction was modest, with over 14% of respondents noting a fall in stock levels, compared to just over 7% signalling a rise. A number of survey respondents linked the reduction of stock to lower output and stronger-than-expected sales.

### Employment Index

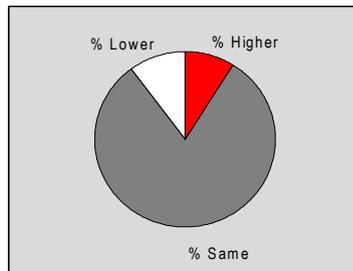
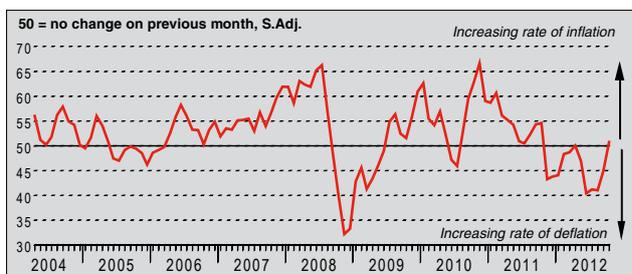
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment levels were reduced in the manufacturing sector during October, extending the current sequence to eight months. The seasonally adjusted Employment Index signalled a modest reduction of staff numbers, which was broadly similar to September. Nearly 10% of respondents recorded job shedding, whereas just over 5% reported a rise in staff levels. Anecdotal evidence suggested that job shedding was linked to lower production requirements.

### Output Prices Index

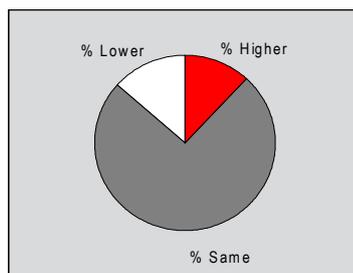
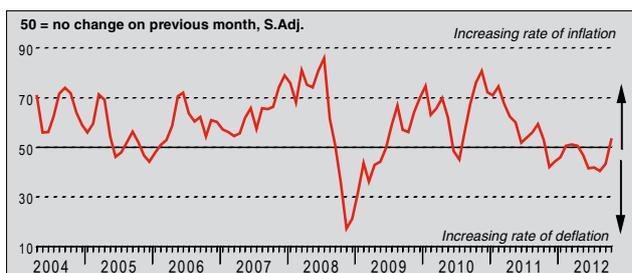
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index indicated that average tariffs set by Chinese manufacturers increased during October for the first time in a year. However, the rate of inflation was only marginal, with less than 9% of survey respondents recording inflation in the latest survey period. A number of firms suggested that tariffs were raised to pass on higher raw material costs.

### Input Prices Index

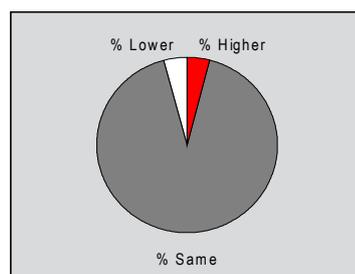
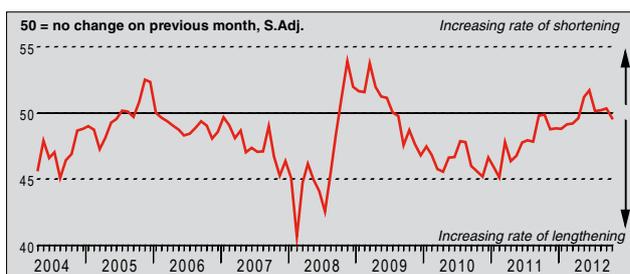
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



After adjusting for seasonality, the Input Prices Index indicated that input costs at Chinese manufacturing plants increased during October, following a five-month period of marked deflation. October's rate of inflation was strong and the quickest recorded in the past year. Nearly 12% of survey respondents reported inflation, with a number of panellists linking increased prices to higher raw material costs.

## Suppliers' Delivery Times Index

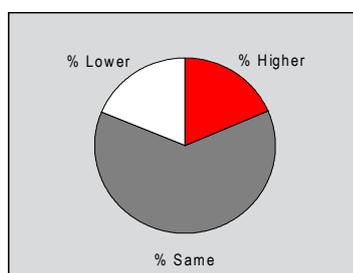
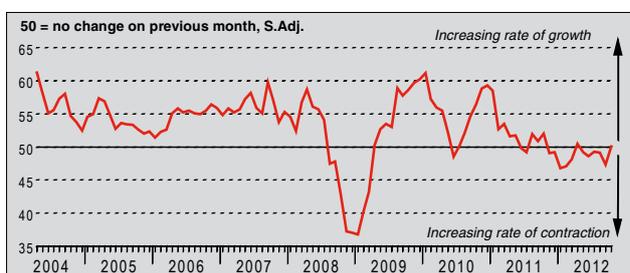
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times lengthened during October for the first time in six months. The seasonally adjusted index signalled that suppliers' delivery times deteriorated only marginally, with just over 4% of panellists reporting longer lead times. Anecdotal evidence suggested that worsened supplier performance was reflective of an increased amount of orders placed to vendors.

## Quantity of Purchases Index

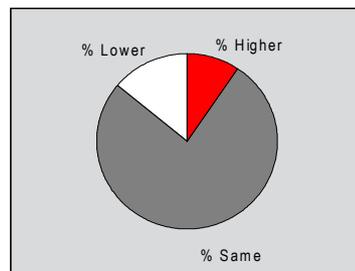
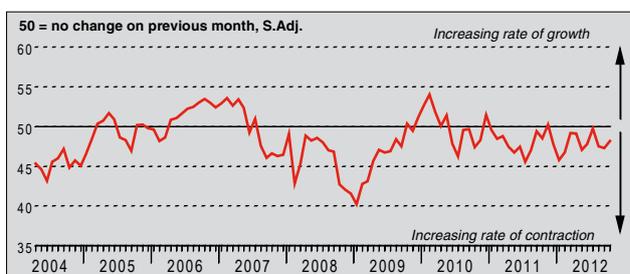
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity expanded in the manufacturing sector during October, following on from a five-month period of contraction. After adjusting for seasonality, the respective index signalled only a slight increase of input buying. Around 18% of panellists reported increased purchasing activity, with a number of respondents linking growth to a greater number of new orders received.

## Stocks of Purchases Index

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



Stocks of purchases held at manufacturers declined during October for the eleventh successive month. The rate of stock depletion eased from September but was still modest. Exactly 14% of respondents signalled a fall in stock levels in the latest survey, compared to just under 10% that noted a rise. Anecdotal evidence suggested that weaker purchasing activity during October contributed to the reduction in 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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