**HSBC Purchasing Managers' Index™ Press Release**

Embargoed until: 10:30 (Beijing), 01 February 2012

compiled by markit

# HSBC China Manufacturing PMI™

## Chinese manufacturers report further falls in output, new business and employment at start of 2012


### Summary

January data showed a further deterioration in Chinese manufacturing sector operating conditions, with both output and new business falling further over the month. Companies reduced their purchasing at a marked rate in response, with many reporting a preference towards stock depletion. Meanwhile, job shedding persisted at the start of 2012. On the price front, a combination of lower average cost burdens and competitive pressures meant that manufacturers continued to reduce their output charges at a sharp rate.


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 – registered 48.8 in January, broadly unchanged from December's reading of 48.7, and a level indicative of a moderate deterioration in Chinese manufacturing sector conditions. The headline index has now posted below the 50.0 no change mark, signalling contraction, for three months in succession.

Manufacturers reported a third successive monthly reduction in factory output during January, decreasing at a moderate rate that was faster than in December. Where a decline in production was recorded, this was commonly linked to lower levels of incoming new business.

New order volumes fell further in January. The overall decrease was the third in as many months, and mainly reflected muted client demand according to survey participants. However, the rate of decline in new work was only marginal. In contrast, a slight expansion of incoming new export business was recorded in the latest survey period.

Backlogs of work returned to growth in January, although the pace of expansion was only slight. Meanwhile, manufacturing firms continued to reduce their total staff numbers at a marginal rate. Companies that recorded a decline in employment linked this to resignations, retirements and, in some cases, redundancies due to company downsizing.

Companies reduced their input buying in response to lower output requirements during the latest survey period. The rate of reduction in purchasing activity was solid, and the sharpest in 34 months. A number of manufacturing firms reported a preference towards stock depletion, with January data signalling a solid decline in pre-production inventories. Despite this, the average time taken by vendors to deliver inputs to manufacturers continued to lengthen.

Average input costs fell for the third consecutive month in January, although the rate of decline was the slowest in that sequence. Companies attributed lower cost burdens to reduced commodity prices on both domestic and global markets. Easing input price pressures, coupled with growing competition for new business, meant that manufacturers continued to reduce their factory gate charges at a marked rate.

### Comment

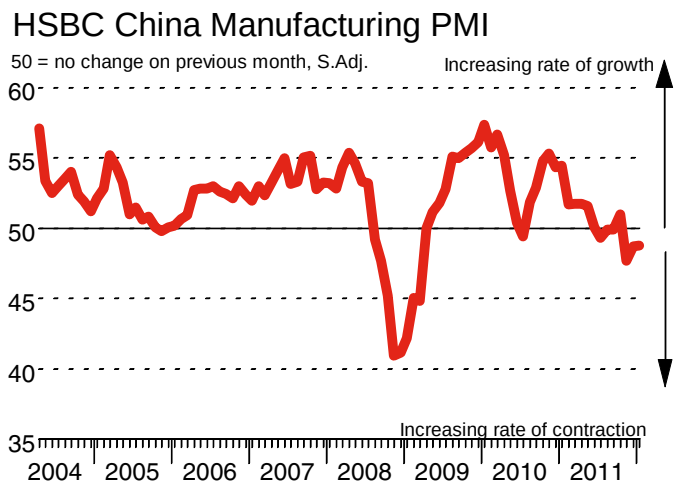
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The final results of January's PMI survey confirmed the still weak growth momentum of manufacturing activities into the New Year, despite the upside surprise of December IP growth due to the front-loaded production ahead of the early Chinese New Year. This calls for more aggressive easing measures to support growth, given that inflation is no longer a concern. Once filtering through, the policy easing should secure a soft-landing in 2012. But the first quarter is likely to be tough, with GDP growth likely to slow to around 8% y-o-y in 1Q from 8.9% in 4Q11."*

### Key points

- Output and new business both decline for a third month in succession
- Purchasing down at the sharpest rate in 34 months
- Companies again report lower average costs and output charges

### Historical Overview




*Sources: Markit, HSBC.*

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## For further information, please contact:


### HSBC

Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Group Communications, China
Telephone +86 21 3888 1251
Email dianayqmao@hsbc.com.cn

### Markit

Alex Hamilton, Economist
Telephone +44-1491-461-076
Email alex.hamilton@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7064-6283
Mobile +44-782-789-1072
Email rachel.harling@markit.com


## Notes to Editors:

The HSBC China Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

## HSBC:

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## About PMIs:

*Purchasing Managers' Index™ (PMI™)* surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics