HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC China Manufacturing PMI™

Manufacturing output decreases at the second-fastest rate in three years

Summary

March data showed manufacturing production falling for the fourth time in the past five months. Factory output was reduced largely in response to lacklustre demand from domestic and external markets. New orders fell at the fastest rate in 2012 so far, while new export business decreased for a second month in succession. Manufacturers reduced their employee numbers as a result, while purchasing activity was also down from one month earlier. There was little change on the price front, with factory gate charges falling modestly, and the rate of input cost inflation remaining somewhat subdued.

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 48.3 in March, down from 49.6, signalling a fifth successive month-on-month deterioration in manufacturing operating conditions. For the first quarter as a whole, the index averaged its lowest reading since Q1 2009.

Companies reported a renewed decline in manufacturing output during March, with the rate of contraction the steepest since November and the second-sharpest in three years. Behind the overall decrease in factory output was a further decline in total new business. Underlying demand weakness was broad-based across domestic and external markets, with new export business also falling moderately from one month earlier. Rates of decline in both cases were among the sharpest seen since the 08/09 financial crisis.

Meanwhile, backlogs of work rose in March, although the rate of accumulation was marginal. Efforts to reduce spare capacity in the face of weak client demand was indicated by a decline in manufacturing employment during March. Although only modest, the rate of job shedding was the strongest in three years. Companies also commented on restructuring efforts and, in some cases, employee resignations.

The amount of goods purchased by manufacturers for use in production fell for the fifth month in a row, albeit to a lesser degree than in February, as firms aligned input requirements to lower order books. Despite this, manufacturers reported a lengthening of vendor lead times. Supply chain delays were linked by survey participants to transportation difficulties and a general lack of stock at vendors. Labour shortages at suppliers also contributed to the lengthening of lead times. However, the rate at which vendor performance deteriorated remained marginal.

Although only modest, the rate of input price inflation in the sector was the highest in five months. Upward pressure on costs was attributed by panellists to rising prices paid for raw materials. In spite of higher costs, companies again reduced their charges at the factory gate, albeit modestly. Output price discounting was generally attributed to pressure from customers for cost reductions and the need to boost competitiveness in the face of weak demand.

Comment

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

"Final PMI results confirm a further slowdown of growth momentum, weighed on by weakening new export orders. As inflation pressures continue to ease, weaker export growth is likely to prompt further easing measures. We still expect at least another 100bp RRR cuts in 1H and additional tax breaks and fiscal spending. Once the easing measures filter through, growth is likely to start bottoming out in 2Q and rebound modestly in 2H."

Key points

- Reduced factory output reflects falling new business from home and abroad
- Manufacturing employment down at sharpest rate in three years
- Input price inflation ticks higher, but remains modest overall

Historical Overview

Sources: Markit, HSBC.

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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.

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