# HSBC China Manufacturing PMI™

## Manufacturing sector operating conditions deteriorate at marginal rate

### Summary

April data pointed to further reductions in manufacturing output and new business, although rates of decline were marginal in both cases. Consequently, companies remained cautious with regards to hiring, highlighted by the index measuring trends in manufacturing employment reaching its lowest level in 37 months. On the price front, charges at the factory gate were unchanged, while average input costs increased only 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 49.3 in April, up from 48.3 in March. That indicated a sixth successive month-on-month worsening of manufacturing sector operating conditions in China. The index was nonetheless consistent with a marginal rate of deterioration.

Manufacturing output decreased for a second month running in April, although the rate of contraction was marginal. Moreover, the latest decrease was slower than in March. Where a decline in factory output was recorded, panellists commented on fewer intakes of new business. There were also reports of adverse market conditions.

Goods producers continued to report underlying demand weakness, with incoming new business falling at a marginal rate in April. In addition, the rate of decline in new business was the slowest in the current six-month period of reduction. In contrast, new export orders rose in April, albeit at a fractional rate.

Growth of work awaiting completion was recorded for the second month running in April, in spite of a further reduction in new orders. However, the rate of backlog accumulation was slight. Meanwhile, companies continued to reduce their staff numbers in April. Although modest, the rate of job shedding was the sharpest in 37 months. Manufacturers commented on employee retirements, resignations and the need to streamline workforce numbers in response to lower output requirements.

Purchasing activity rose marginally in April, while companies further depleted their stocks of purchases. However, the rate of inventory depletion remained slight. Limited demand for raw materials meant that average vendor performance deteriorated at the weakest rate since October 2011.

Average input costs faced by manufacturing firms rose again in April, although the rate of inflation was marginal. Higher fuel and raw material costs were mentioned as the main drivers of inflation. Some panellists also commented on increased transportation and labour-related costs. Meanwhile, latest data signalled no change in average tariffs, ending a five-month period of reduction. Where a fall in factory gate charges was recorded, companies commented on the need to stimulate fragile demand. Manufacturers that reported a rise attributed this to the passing on of higher costs to clients.

### Comment

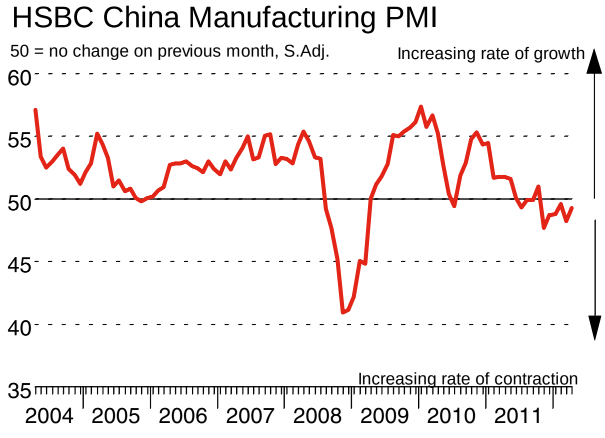
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The upward revision to April's final PMI reading, compared to the flash estimate, confirms that the pace of China's slowdown is stabilized. The 8.1% y-o-y GDP growth is likely to be the cyclical trough. As easing measures are starting to work and additional easing measures are on the way in the light of accommodative inflation outlook in the coming months, we expect Chinese GDP growth to bottom out in 2Q and recover modestly to over 8.5% in 2H."*

### Key points

- Manufacturing output and new orders both fall at marginal rates
- Employment down at fastest rate in over three years
- Input cost inflation remains subdued

### 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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