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

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## HSBC China Manufacturing PMI™

# Manufacturing PMI™ signals seventh successive month of deteriorating operating conditions

#### **Summary**

May data signalled a further modest deterioration in manufacturing sector operating conditions, largely reflective of a seventh successive month-on-month decline in overall new business. Job shedding persisted as a result, with the latest reduction in staff numbers the sharpest in more than three years. A renewed fall in purchasing activity was signalled by May's survey, which in turn contributed to an improvement in vendor performance for the first time since July 2009. Meanwhile, average input costs fell at a solid rate, and selling prices decreased for the sixth time in the past seven months.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – registered 48.4 in May, down slightly from 49.3 in April, signalling a seventh successive month-on-month worsening of Chinese manufacturing sector operating conditions. Despite accelerating since April, the rate of deterioration was only modest.

Manufacturing production decreased further in May, although the pace of decline was marginal. Moreover, the latest decrease in factory output was the weakest in the current three-month period of contraction. Where a decline in production was signalled, companies commented on falling new business.

The rate of decline in overall new orders accelerated since April, but was modest nonetheless. New export business also decreased, following a rise in the preceding month. Companies cited muted global demand conditions as the main reason behind the overall decrease in export sales.

Reduced intakes of new business contributed to another month of job shedding, with the rate of decline the sharpest in 38 months. Companies have now reduced their staff numbers in each of the past three months.

May data highlighted a renewed reduction in purchasing activity, albeit at a marginal rate. Holdings of pre-production goods decreased as a result, with the pace of stock depletion the fastest in three months. Meanwhile, muted demand for raw materials among goods producers meant that suppliers were able to shorten their lead times on average. Indeed, the overall improvement in vendor performance was the first in nearly three years.

Purchasing costs faced by manufacturing firms fell in May, ending a three-month period of marginal inflation. The pace of decline in input prices was solid, but slower than rates seen at the turn of the year. Companies reported lower prices paid for raw material and fuel. As a result of lower average costs, goods producers opted to reduce their factory gate charges on average. Output price discounting

has now been recorded in six of the past seven months. Some respondents also mentioned lowering average tariffs in a bid to retain existing clients and attract new business.

#### Comment

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

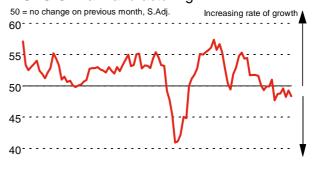
"May's final reading confirmed that manufacturing growth slowed further on weakening demand from both global and domestic markets. This points to a continuous slowdown of the real economy in 2Q and should promote Beijing to step up easing efforts in the coming months. On top of monetary easing via additional RRR cuts and one 25bp rate cut, Beijing policy makers should allow fiscal measures and private investment to play a bigger role in supporting growth."

#### **Key points**

- New order and output indices post sub-50 readings
- Employment down at fastest rate in 38 months
- Input prices fall for first time since January

#### **Historical Overview**

#### HSBC China Manufacturing PMI



35 Increasing rate of contraction 2004 2005 2006 2007 2008 2009 2010 2011

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<sup>TM</sup> (PMI<sup>TM</sup>)* 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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

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Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>) 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

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