

# HSBC China Manufacturing PMI™

## Manufacturing sector operating conditions worsened at the sharpest rate in 41 months

### Summary

August data signalled a renewed decline in Chinese manufacturing output, as new business decreased at the sharpest rate in nine months. Consequently, backlogs of work fell modestly, and job shedding was recorded for the sixth month in succession. On the price front, average input costs declined at the sharpest rate in 41 months, while the rate of output price discounting remained sharp.

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 47.6 in August, down from 49.3 in July, signalling a tenth successive month-on-month deterioration in Chinese manufacturing sector operating conditions. Moreover, the latest index reading was the lowest since March 2009.

Manufacturing output in China declined during August, following a rise one month previously. Although only modest, the rate of decline in factory output was the sharpest since March. Where a drop in manufacturing production was recorded, survey respondents commented on lower levels of incoming new business. The pace of reduction in new orders was solid, and the most marked in nine months. Meanwhile, new export orders also decreased during August, and at the sharpest rate since March 2009.

With new business decreasing further, companies depleted their volumes of work-in-hand (but not yet completed) over the month. Although only modest, the rate of decline in outstanding business was the sharpest since January 2009.

Meanwhile, staff numbers in the Chinese goods producing sector decreased during August, with the rate of job shedding the fastest in 41 months. The latest decrease in headcounts was the sixth in as many months. Reduced employment in part reflected falling new order volumes.

Purchasing activity in China's manufacturing sector decreased for a fourth successive month during August, although the rate of decline remained marginal. Stocks of purchases fell as a result, with the latest decline the sharpest since May. Meanwhile, muted demand for raw materials meant that average vendor performance improved for the fourth month running, albeit at a fractional rate. Anecdotal evidence provided by survey respondents suggested that shorter lead times reflected sufficient availability of inputs at vendors.

Average input costs faced by goods producers fell further during August, with the rate of decline accelerating to the fastest in 41 months. Survey respondents commented on lower prices paid for a range of raw materials. Manufacturers in China reduced their average tariffs as a result. The pace of output price discounting was sharp, and

little-changed since the month before. There were also reports of increased competition for new business.

### Comment

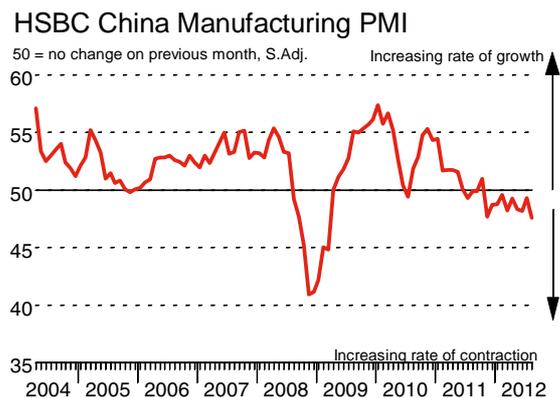
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The final reading of the HSBC manufacturing PMI (August) confirmed that China's manufacturing sector still faces intensifying downward pressure. New export orders contracted at the fastest pace since March 2009, this, combined with a record high in stocks of finished goods sub-index, and a 41-month low employment index, suggests China's exporters are facing increasing difficulties amid stronger global headwinds. Beijing must step up policy easing to stabilize growth and foster job market conditions."*

### Key points

- Renewed decline in factory output signalled
- New export orders fall to greatest extent since March 2009
- Average input costs down at steepest rate in 41 months

### 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](mailto:economics@markit.com).

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