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

Embargoed until: 10:30 (Beijing), 29 September 2012

# HSBC China Manufacturing PMI™

# Output falls at fastest pace since March

# **Summary**

Data in September signalled a stronger decline in Chinese manufacturing output, as the volume of new orders fell for the eleventh consecutive month. New export orders declined at the sharpest rate in 42 months amid reports of weak international demand, while lower workloads were linked to a fall in backlogs of work.

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 – posted 47.9 in September, up slightly from 47.6 in August, and signalling an eleventh successive month-on-month deterioration in Chinese manufacturing sector operating conditions. However, the latest data signalled the rate of deterioration eased marginally.

The rate of reduction in manufacturing output in China accelerated during September, signalling the strongest contraction since March. A number of respondents that reported a fall in production levels attributed this to lower order volumes as both domestic and international demand weakened. However, the rate of reduction in new export orders remained stronger than the decline in overall new orders. Panellists commented on tough trading conditions in a number of key trading markets.

Consequently, backlogs of work at manufacturing firms were depleted for the second month in a row, although the reduction in work-in-hand (but not yet completed) was only marginal during September. Staff numbers decreased for the seventh month in a row. However, the rate of job shedding was relatively modest in September, as a majority of goods producers (nearly 85%) indicated no change in employment levels. Any job cuts were generally linked to reduced production requirements.

Purchasing activity fell in China's manufacturing sector for a fifth successive month during September. The rate at which input buying declined accelerated to the fastest since February.

As a result, stocks of purchases fell in September at the quickest rate since May, as companies sought to utilise inventories wherever possible in production. Meanwhile, average lead times improved for the fifth consecutive month. Survey respondents reported that muted demand for inputs and fewer orders placed to vendors resulted in quicker delivery times.

Input costs faced by manufacturers fell in September for the fifth month running. The rate of decline was slower than in August, but still remained sharp. Panellists attributed this to lower prices for a variety of raw materials. As a result, Chinese manufacturers reduced their average output charges accordingly. A number of firms also commented on increased competitive pressures.

#### Comment

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

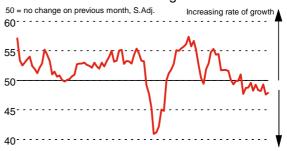
"Chinese manufacturing growth is likely to be bottoming out. However, the sharper contraction of new export orders and the lingering pressures on job markets mean that Beijing should step up easing to support growth and employment. Fiscal measures should play a more important role in the coming months."

### **Key points**

- New export orders fall at fastest rate in 42 months
- Output and input prices continue to fall
- Purchasing activity declines amid weak demand and lower production requirements

#### **Historical Overview**

#### HSBC China Manufacturing PMI



35 Increasing rate of contraction 2004 2005 2006 2007 2008 2009 2010 2011 2012

Sources: Markit, HSBC.

ATTENTION: Please note that from the October data releases onwards, all HSBC China PMI data will be released at 09:45 Beijing time. The change will enable market players to have earlier access to information and affects flash manufacturing, final manufacturing, services and composite data releases.

The HSBC Flash China Manufacturing PMI is due for release 24<sup>th</sup> October 2012.

For all forthcoming PMI release dates please see <a href="http://www.markiteconomics.com/Survey/Page.m">http://www.markiteconomics.com/Survey/Page.m</a> vc/DiaryofReleaseDates





## 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

Annabel Fiddes, Economist
Telephone +44-1491-461-010
Email annabel.fiddes@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-781-581-2162
Email caroline.lumley@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<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>.

# **HSBC**:

HSBC is one of the world's largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 134 countries and territories.

# **About Markit:**

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see <a href="https://www.markit.com">www.markit.com</a>

#### **About PMIs:**

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

The intellectual property rights to the HSBC China Manufacturing PMI™ provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.