

HSBC China Manufacturing PMI™

Modest improvement in operating conditions

Summary

After adjusting for seasonal factors, the HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.6 in March, up from 50.4 in February, signalling a modest improvement. Operating conditions in the Chinese manufacturing sector have now improved for five consecutive months.

Production levels increased for the fifth month in a row in March. The rate of expansion accelerated from February to a solid pace, the second-fastest in two years. Behind the rise in output, total new orders rose solidly, and for the sixth month in a row. A number of respondents attributed growth to strengthened client demand. Meanwhile, new export orders also increased, albeit marginally.

Volumes of outstanding business declined for the second successive month in March. The rate of backlog depletion was broadly unchanged from February, and remained slight overall. Staffing levels, however, were relatively unchanged from the previous month.

Suppliers' delivery times lengthened in March, following a slight improvement in February. That said, the rate at which vendor performance deteriorated was slight, with just over 6% of panellists recording longer lead times. A number of respondents linked the deterioration to increased orders placed at vendors.

Average input costs faced by manufacturers decreased, following a five-month period of inflation. However, the rate of reduction was marginal, with a number of respondents citing lower raw material costs. Output charges set by manufacturers also declined in March, and for the first time in since last November. The rate of discounting was modest, with approximately 10% of panellists lowering tariffs. A number of respondents attributed the fall to a combination of passing on lower input costs to clients and competitive market pressures.

Purchasing activity in the manufacturing sector rose for the sixth successive month. Growth quickened from February to a solid pace that was the third-strongest in two years. Meanwhile, stocks of purchases fell modestly for the second month in a row. Increased input buying and the depletion of stocks were both associated with increased production at plants.

Finally, inventories of finished goods increased for the first time in six months, albeit marginally. A number of respondents attributed the rise to increased production on the back of stronger client demand.

Comment

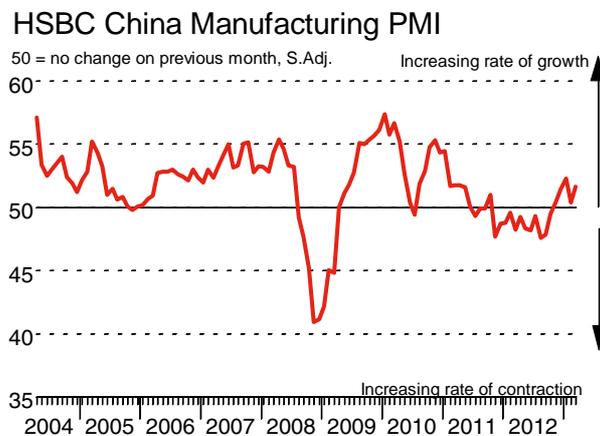
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"China's recovery continues, mainly driven by the gradually improving domestic demand conditions. The decline in input prices suggests a modest pace of demand recovery and moderating inflationary pressures. This, plus the lingering external headwinds, implies the Beijing policy makers should keep a relative accommodative policy stance in place."

Key points

- Output expands at solid pace
- Solid growth of total new orders
- Stocks of finished goods increase for the first time in six months

Historical Overview



Sources: Markit, HSBC.

The April HSBC Flash China Manufacturing PMI is due for release 23rd April 2013.

For all forthcoming PMI release dates please see <http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates>

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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 420 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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