HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 09:45 (Beijing), 3 June 2013

compiled by markit

HSBC China Manufacturing PMI™

Operating conditions deteriorate for first time since last October

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 at 49.2 in May, down from 50.4 in April. This signalled the first deterioration in operating conditions in seven months, albeit at only a marginal pace.

Despite operating conditions worsening, manufacturing output rose for the seventh month in a row during May, albeit marginally. Behind the meagre expansion of output, total new orders declined modestly and for the first time since last September. Demand from abroad also weakened over the month, with new export orders falling for the second month in a row. A number of panellists suggested reduced client demand, particularly in the US, had led to the overall reduction in export orders.

Staff numbers fell for the second month in a row in May. The rate of job shedding was modest, and linked to both employee resignations and companies down-sizing. Backlogs of work also declined over the month, and at the fastest pace in nine months. Anecdotal evidence suggested that lower new order volumes helped free up capacity at some plants.

Purchasing activity in the manufacturing sector decreased in May. Though the rate of reduction was only slight, it was the first time input buying had declined since last September. Consequently, stocks of purchases fell for the fourth month in a row. The reductions in both purchasing activity and stocks of purchases were attributed to lower production requirements by a number of firms.

As a result of weaker demand for inputs, suppliers' delivery times shortened for the second month in a row (albeit marginally).

Overall input costs declined for the third month in a row in May. Furthermore, the rate of reduction remained sharp. Panellists reported that lower raw material costs, particularly for metals, drove down purchasing prices. Output charges also decreased sharply over the month, with a number of firms passing on reduced operating costs to clients.

Finally, stocks of finished goods increased over the month, and at a modest pace. Anecdotal evidence suggested that a combination of higher output and fewer new orders led to the accumulation of post-production inventories.

Comment

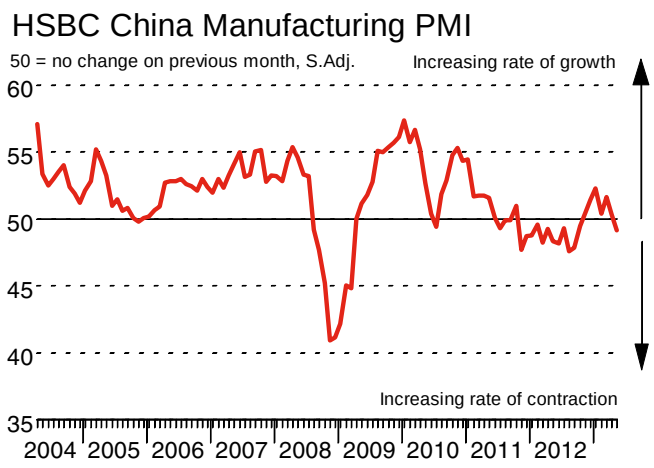
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The downward revision of the final HSBC China Manufacturing PMI suggests a marginal weakening of manufacturing activities towards the end of May, thanks to deteriorating domestic demand conditions. With persisting external headwinds, Beijing needs to boost domestic demand to avoid a further deceleration of manufacturing output growth and its negative impact on the labour market. The new leaders should strike a delicate balance between reform and growth."

Key points

- Both total new orders and new export orders decline
- Output growth maintained, but at marginal rate
- Purchasing activity falls for the first time in eight months

Historical Overview



Sources: Markit, HSBC.

The June HSBC Flash China Manufacturing PMI is due for release 20th June 2013.

For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page.mvc/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 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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We serve around 58 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 81 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 about 220,000 shareholders in 129 countries and territories.

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About PMIs:

Purchasing Managers' Index™ (PMI™) 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