

HSBC China Manufacturing PMI™

Marginal improvement in operating conditions during April

Summary

April data signalled only a slight improvement of operating conditions in the Chinese manufacturing, as output and new orders both expanded at weaker rates. New export orders contracted for the first time in 2013 so far.

On the price front, input prices decreased at the sharpest pace since last September, while output charges declined at the quickest rate for eight months. Job shedding was also recorded in the sector, the first time a net fall in payroll numbers has been recorded since last November.

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 50.4 in April, down from 51.6 in March, signalling a slight improvement in operating conditions. The PMI has now posted above the 50.0 no-change mark for six successive months.

Production at manufacturing plants in China increased for the sixth month in a row, though growth slowed to a marginal pace. New orders displayed a similar trend, with growth easing to a five-month low, while new export orders declined for the first time since last December. There were reports of softer demand from key American, Asian and European export markets.

Average input costs faced by goods producers fell for the second successive month. Furthermore, the decline was the sharpest since last September, with more than 12% of respondents recording a fall in costs. Anecdotal evidence suggested markedly lower raw material costs drove deflation. Output charges also decreased for the second month in a row, with the rate of discounting the fastest in eight months. A number of panellists mentioned cutting average tariffs in the hope of attracting more new business.

Backlogs of work increased, albeit fractionally, whilst employment levels decreased for the first time in five months. The rate of job shedding was marginal, however, with a vast majority of panellists (nearly 85%) noting no change to workforce numbers. The reduction in staff numbers was attributed to the non-replacement of employees that had resigned or retired.

Purchasing activity in the manufacturing sector rose for the seventh month running. Growth was modest, and the joint-weakest in the past six months. With little pressure on vendor capacity, suppliers' delivery times were broadly unchanged in April.

Finally, stocks of purchases fell for the third successive survey period. A number of respondents linked the fall to increased use of current inventories in production. However, post-production stocks increased at the quickest pace in

eight months. Anecdotal evidence suggested higher inventories reflected excess output at some plants.

Comment

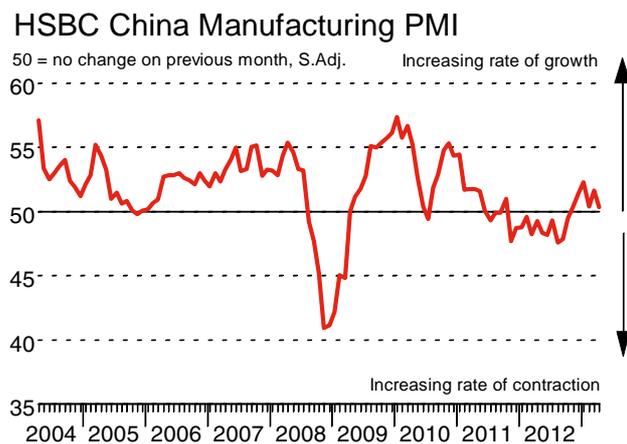
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The slower growth of manufacturing activities in April confirmed a fragile growth recovery of the Chinese economy as external demand deteriorated and renewed destocking pressures built up. The looming deflationary pressures also suggest softer overall demand conditions. All this is likely to weigh on the labour market, which is likely to invite more policy responses in the coming months."

Key points

- Total new orders increase, but new export orders decline modestly
- Both input prices and output charges fall sharply
- Employment levels cut for the first time since last November

Historical Overview



Sources: Markit, HSBC.

The May HSBC Flash China Manufacturing PMI is due for release 23rd May 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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