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# HSBC China Manufacturing PMI™

Chinese manufacturers report further falls in output, new business and employment at start of 2012

## **Key findings:**

- Output and new business both decline for a third month in succession
- Purchasing down at the sharpest rate in 34 months
- Companies again report lower average costs and output charges

January data showed a further deterioration in Chinese manufacturing sector operating conditions, with both output and new business falling further over the month. Companies reduced their purchasing at a marked rate in response, with many reporting a preference towards stock depletion. Meanwhile, job shedding persisted at the start of 2012. On the price front, a combination of lower average cost burdens and competitive pressures meant that manufacturers continued to reduce their output charges at a sharp rate.

After adjusting for seasonal variation, the HSBC *Purchasing Managers' Index*<sup>TM</sup> ( $PMI^{TM}$ ) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – registered 48.8 in January, broadly unchanged from December's reading of 48.7, and a level indicative of a moderate deterioration in Chinese manufacturing sector conditions. The headline index has now posted below the 50.0 no change mark, signalling contraction, for three months in succession.

Manufacturers reported a third successive monthly reduction in factory output during January, decreasing at a moderate rate that was faster than in December. Where a decline in production was recorded, this was commonly linked to lower levels of incoming new business.

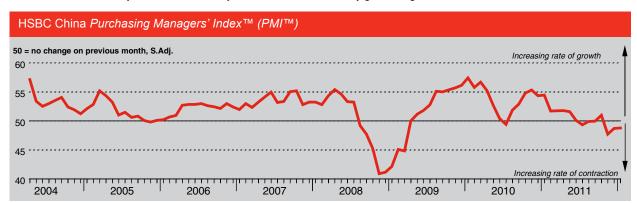
New order volumes fell further in January. The overall decrease was the third in as many months, and mainly reflected muted

client demand according to survey participants. However, the rate of decline in new work was only marginal. In contrast, a slight expansion of incoming new export business was recorded in the latest survey period.

Backlogs of work returned to growth in January, although the pace of expansion was only slight. Meanwhile, manufacturing firms continued to reduce their total staff numbers at a marginal rate. Companies that recorded a decline in employment linked this to resignations, retirements and, in some cases, redundancies due to company downsizing.

Companies reduced their input buying in response to lower output requirements during the latest survey period. The rate of reduction in purchasing activity was solid, and the sharpest in 34 months. A number of manufacturing firms reported a preference towards stock depletion, with January data signalling a solid decline in pre-production inventories. Despite this, the average time taken by vendors to deliver inputs to manufacturers continued to lengthen.

Average input costs fell for the third consecutive month in January, although the rate of decline was the slowest in that sequence. Companies attributed lower cost burdens to reduced commodity prices on both domestic and global markets. Easing input price pressures, coupled with growing competition for new business, meant that manufacturers continued to reduce their factory gate charges at a marked rate.



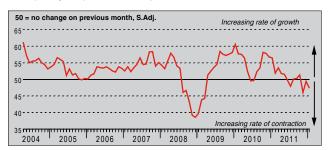
The HSBC China Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI™ below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

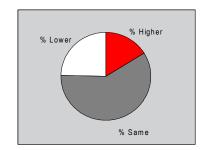




#### **Output Index**

Q. Please compare your production/output this month with the situation one month ago.



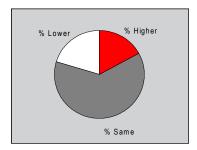


Manufacturing output in China fell for a third successive month at the start of 2012, with almost one-quarter of survey participants recording a reduction since the preceding month. This compared to 16% that saw an increase. Additionally, the seasonally adjusted Output Index was at a level indicative of a moderate rate of decline in factory activity. Where a decrease in production was recorded, panellists commonly linked this to lower levels of incoming new business.

#### New Orders Index

Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



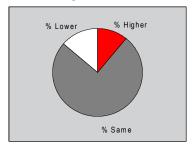


January data signalled a reduction in the level of new business received by Chinese manufacturing firms, with the seasonally adjusted New Orders Index posting below the neutral 50.0 threshold for the third month in succession. However, the rate of decline in new work was only marginal, and the slowest in that sequence. Of those survey respondents that recorded a drop in new orders (around 20%), the majority attributed this to muted demand conditions.

## New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.





After adjusting for seasonal variation, the New Export Orders Index posted above the neutral level of 50.0 in January, signalling a renewed expansion of new export business received by manufacturing firms. This contrasted with a fall in new business overall. The latest index reading was nonetheless consistent with only a marginal rate of growth. Subdued foreign demand was cited by panellists as the principal drag on new export order growth in the latest survey period.

## Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

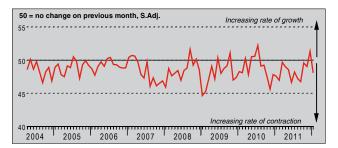


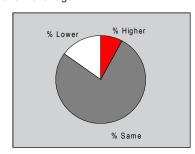


The seasonally adjusted Backlogs of Work Index signalled renewed growth of outstanding business in the Chinese manufacturing sector at the beginning of 2012. This occurred despite a further reduction in incoming new orders. The rate of backlog accumulation was marginal, however, with the majority of panellists (almost 75%) signalling no change in volumes of work-in-hand (but not yet completed).

#### Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

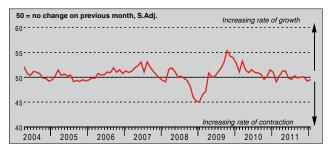


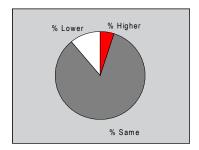


After accounting for seasonal factors, the Stocks of Finished Goods Index signalled a renewed reduction in inventories of post-production goods held at Chinese manufacturing firms. However, the rate of inventory depletion was only modest. While there were some reports of deliberate stock utilisation in meeting new business, these were partly offset by reports from other companies of unwanted stock build up, following weaker than expected sales.

#### **Employment Index**

Q. Please compare the level of employment at your unit with the situation one month ago.





Chinese manufacturers reported a second successive monthly decline in workforce numbers during January. The rate of job shedding was marginal, however, with the majority of panellists (exactly 84%) reporting no change in employment since the preceding month. Where a fall in staff numbers was registered, panellists linked this to resignations, retirements and, in some cases, redundancies due to company downsizing. Where a rise in staff levels was noted, respondents mentioned business expansion plans.

## Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



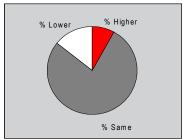


Prices charged by Chinese manufacturing firms for their finished products fell again in January, extending the current period of reduction to three months. With almost 11% of companies signalling a decline in factory gate charges, compared to just 2% that saw an increase, the rate of output price discounting remained marked. According to survey participants, lower selling prices mainly reflected falling input costs. Some respondents also mentioned increased competition for new business.

# Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



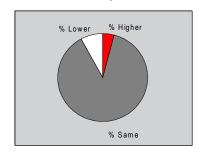


The seasonally adjusted Input Prices Index indicated that purchasing costs faced by firms operating in the Chinese manufacturing sector continued to fall at the start of 2012. The latest decrease in average costs was the third in as many months, and despite climbing to a three-month high, the index was at a level indicative of a solid rate of decline. Around 14% of companies reported a decrease in average cost burdens from one month ago, which the majority attributed to lower raw material costs.

#### Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



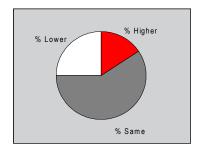


January data indicated that the average time taken by suppliers to deliver inputs to Chinese manufacturers lengthened for the thirtieth month in succession, largely as a result of supply shortages at vendors. There were also reports that transportation problems and a lack of labour had restricted the ability of some suppliers to meet delivery schedules. However, the extent to which average vendor performance deteriorated remained marginal.

#### Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

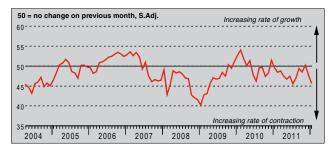


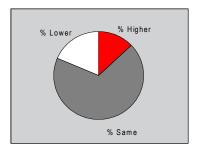


The amount of inputs purchased by Chinese manufacturers fell in January, with the seasonally adjusted Quantity of Purchases Index posting below the neutral 50.0 threshold for the third month in a row. The rate of decline in purchasing activity was solid, and accelerated to the sharpest in 34 months. Anecdotal evidence provided by survey respondents suggested that reduced input buying reflected lower output requirements and, in some cases, stock utilisation policies.

## Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





Stocks of raw materials and semi-manufactured goods in the Chinese manufacturing sector fell for a second successive month in January. The rate at which inventory holdings were depleted was solid, and the fastest in six months. Those respondents that reported a decline in pre-production inventories often linked this to stock rationalisation policies aimed at utilising existing inventories in production. Almost 19% of companies recorded a decrease in stocks levels since December, compared to approximately 13% that noted a rise.

# Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 430 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Chinese Industrial Production. 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 $^{\text{TM}}$  (PMI $^{\text{TM}}$ ) 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.

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