

HSBC China Manufacturing PMI™

Manufacturing output decreases at the second-fastest rate in three years

Key findings:

- Reduced factory output reflects falling new business from home and abroad
- Manufacturing employment down at sharpest rate in three years
- Input price inflation ticks higher, but remains modest overall

March data showed manufacturing production falling for the fourth time in the past five months. Factory output was reduced largely in response to lacklustre demand from domestic and external markets. New orders fell at the fastest rate in 2012 so far, while new export business decreased for a second month in succession. Manufacturers reduced their employee numbers as a result, while purchasing activity was also down from one month earlier. There was little change on the price front, with factory gate charges falling modestly, and the rate of input cost inflation remaining somewhat subdued.

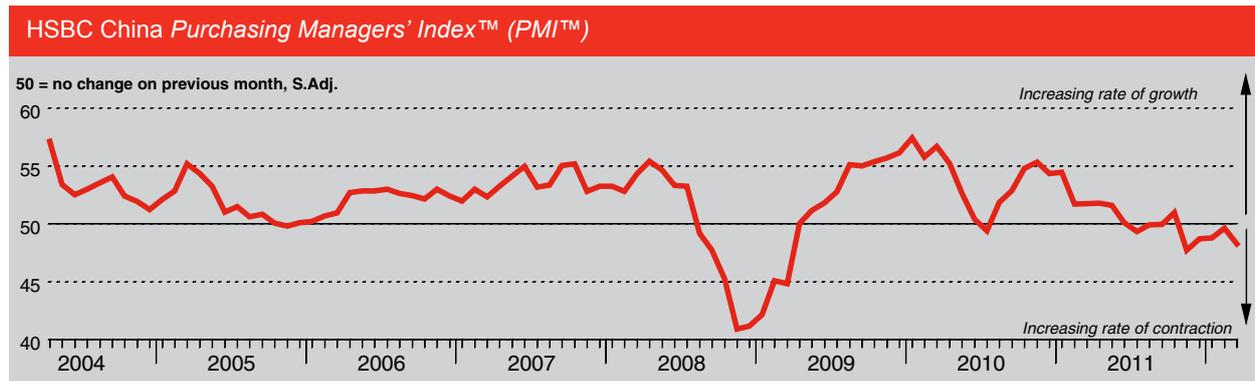
After adjusting for seasonal factors, the HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 48.3 in March, down from 49.6, signalling a fifth successive month-on-month deterioration in manufacturing operating conditions. For the first quarter as a whole, the index averaged its lowest reading since Q1 2009.

Companies reported a renewed decline in manufacturing output during March, with the rate of contraction the steepest since November last year. Behind the overall decrease in factory output was a further decline in total new business. Underlying demand weakness was broad-based across domestic and external markets, with new export business also falling moderately from one month earlier. Rates of decline in both cases were among the sharpest seen since the 08/09 financial crisis.

Meanwhile, backlogs of work rose in March, although the rate of accumulation was marginal. Efforts to reduce spare capacity in the face of weak client demand was indicated by a decline in manufacturing employment during March. Although only modest, the rate of job shedding was the strongest in three years. Companies also commented on restructuring efforts and, in some cases, employee resignations.

The amount of goods purchased by manufacturers for use in production fell for the fifth month in a row, albeit to a lesser degree than in February, as firms aligned input requirements to lower order books. Despite this, manufacturers reported a lengthening of vendor lead times. Supply chain delays were linked by survey participants to transportation difficulties and a general lack of stock at vendors. Labour shortages at suppliers also contributed to the lengthening of lead times. However, the rate at which vendor performance deteriorated remained marginal.

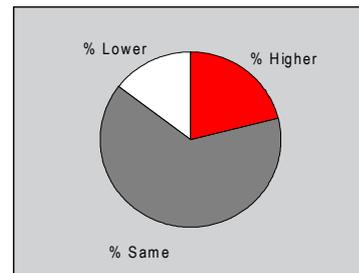
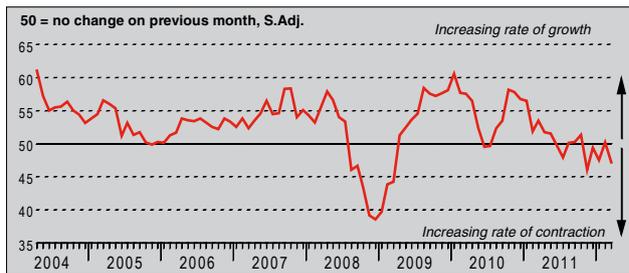
Although only modest, the rate of input price inflation in the sector was the highest in five months. Upward pressure on costs was attributed by panellists to rising prices paid for raw materials. In spite of higher costs, companies again reduced their charges at the factory gate, albeit modestly. Output price discounting was generally attributed to pressure from customers for cost reductions and the need to boost competitiveness in the face of weak demand.



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

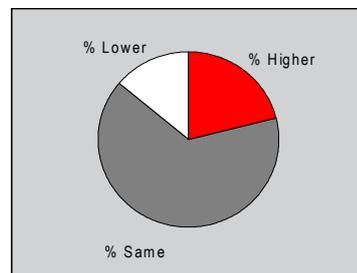
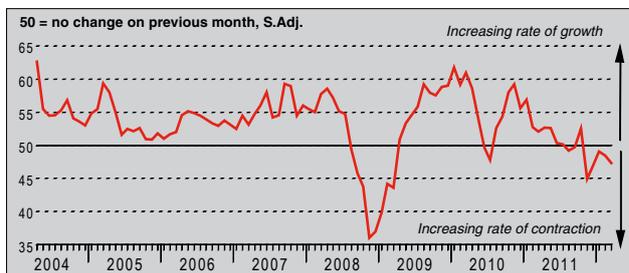
Q. Please compare your production/output this month with the situation one month ago.



March data signalled a renewed decline in Chinese manufacturing production. The seasonally adjusted Output Index was at a level indicative of a moderate pace of contraction that was the steepest since last November. The index has now posted below the neutral 50.0 threshold in four of the past five months. Anecdotal evidence from survey respondents suggested that reduced factory output reflected lower levels of new business from both domestic and external clients.

New Orders Index

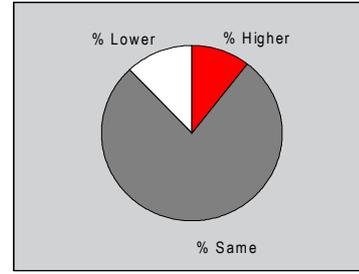
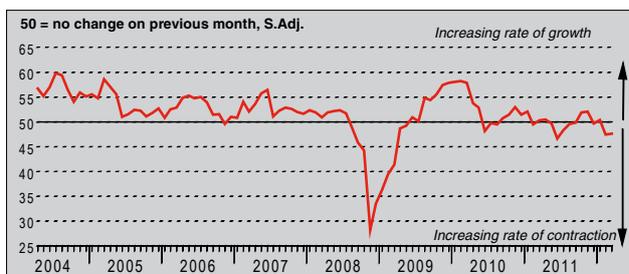
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



The level of incoming new business placed at Chinese manufacturing firms decreased in March, with the seasonally adjusted New Orders Index posting below the 50.0 no change mark for the fifth month in succession. Moreover, the rate of decline in new work was the steepest in 2012 to date. Of those survey participants that reported a decrease in new business from one month ago, many commented on weak underlying demand conditions.

New Export Orders Index

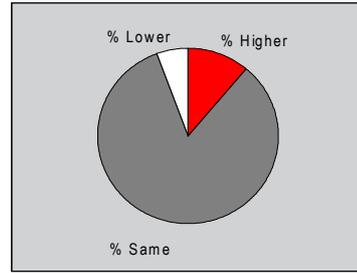
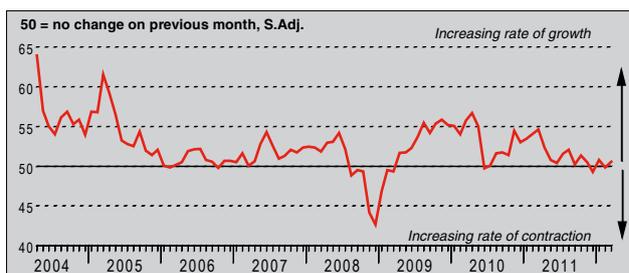
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The latest survey findings showed a month-on-month decline in new export business during March, with around 12% of panellists signalling a reduction. The latest decrease in foreign order levels was the second in as many months. The pace of decline in new export work was moderate, and broadly similar to that registered in February. Where a fall in new orders from abroad was recorded, this was often linked to sluggish demand on global markets.

Backlogs of Work Index

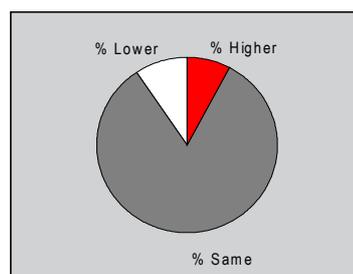
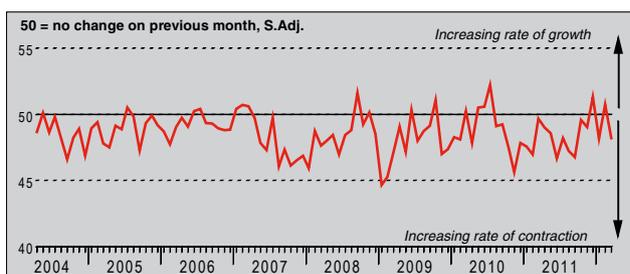
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



After adjusting for seasonal factors, the Backlogs of Work Index signalled an increase in volumes of work-in-hand (but yet completed) at Chinese manufacturing firms. This occurred despite a further reduction in incoming new orders. March's index reading nonetheless indicated only a marginal rate of backlog accumulation. The vast majority of survey participants (around 83%) reported no difference in outstanding business since the preceding month.

Stocks of Finished Goods Index

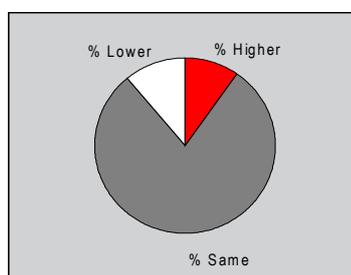
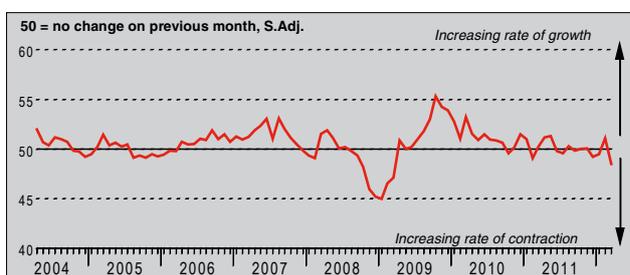
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stock holdings of finished goods in the Chinese manufacturing sector decreased during March, with almost 10% of survey respondents reporting a decline from one month earlier. This compared to 8% that noted a rise. However, the pace at which companies reduced their inventory levels was only modest. Panellists mentioned that reduced holdings of post-production goods reflected lower factory output and, in some cases, a preference towards meeting new orders through stock depletion.

Employment Index

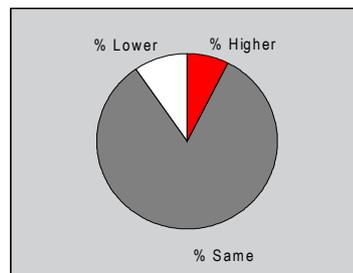
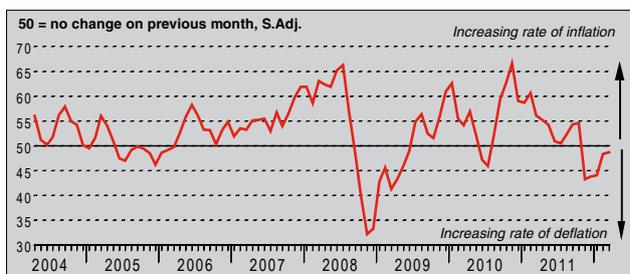
Q. Please compare the level of employment at your unit with the situation one month ago.



Staff numbers in the Chinese manufacturing sector fell during March. Despite dropping to a three-year low, the seasonally adjusted Employment Index signalled only a modest rate of reduction. Job shedding has now been recorded in three of the past four months. Of those survey participants that recorded a decline in workforce numbers (around 11%), many commented on fewer intakes of new business. There were also reports of employee resignations and restructuring efforts.

Output Prices Index

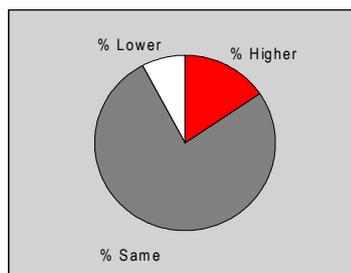
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



By posting a sub-50 reading in March, the seasonally adjusted Output Prices Index signalled a continued decline in prices charged by Chinese manufacturers for their finished goods. Companies reportedly lowered their factory gate charges in an attempt to attract new business amid rising competition for new work. Some firms also commented on client requests for reduced charges. However, the rate of output price discounting eased for the fourth successive month, to the slowest in the current five-month period of reduction.

Input Prices Index

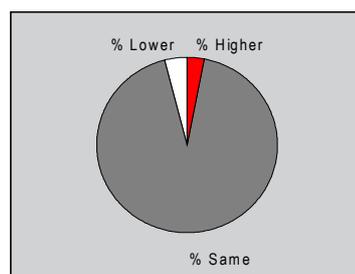
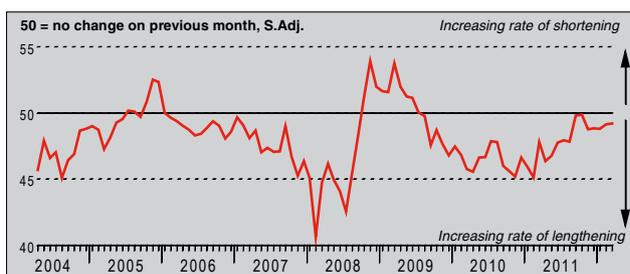
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



After adjusting for seasonal trends, the Input Prices Index remained above the 50.0 no change value in March, rising to its highest level since October 2011. The latest index reading nevertheless pointed to only a modest rise in the average cost of manufacturers' purchases. Approximately 16% of firms reported an increase in average cost burdens from one month ago, which the majority attributed to higher raw material prices. There were also some reports of increased fuel costs.

Suppliers' Delivery Times Index

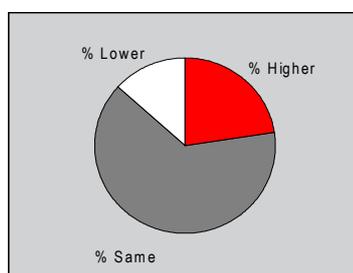
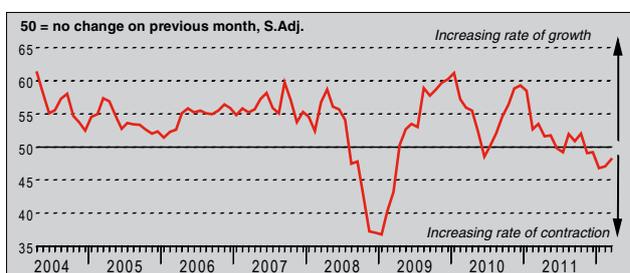
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



In line with the trend observed since August 2009, the average time taken by suppliers to deliver inputs to manufacturing firms lengthened during March. Companies that reported supply chain delays linked this to transportation difficulties and a lack of supply at vendors. Labour shortages at suppliers also contributed to the lengthening of lead times in March. The rate of deterioration in vendor performance was marginal, however, with the vast majority of panellists (almost 93%) signalling no change in the performance of suppliers since the preceding month.

Quantity of Purchases Index

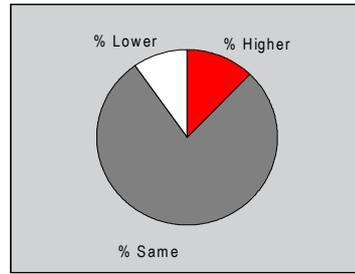
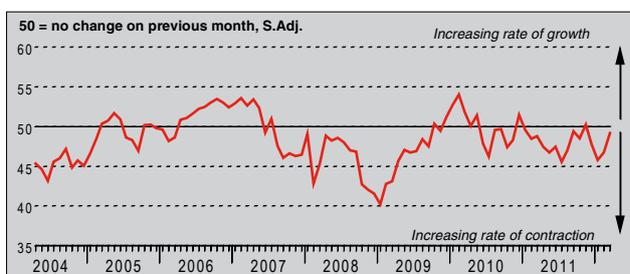
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Chinese manufacturing sector continued to decrease during March. However, the rate of contraction was only modest, and the slowest in 2012 to date. The latest reduction in input buying was the fifth in as many months. Lower output requirements were cited by survey participants as the principal factor contributing to the overall decrease in purchasing. Some manufacturers also commented on deliberate inventory reduction policies.

Stocks of Purchases Index

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



March data showed manufacturers in China reducing their stocks of pre-production goods. Anecdotal evidence provided by survey respondents suggested that inventory depletion mainly reflected reduced purchasing activity. The pace of reduction was only marginal, however, and the slowest in the current four-month period of reduction. Around 12% of companies signalled an increase in stock levels from one month ago, compared to almost 10% that mentioned a fall.

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™ (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.

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