

# HSBC China Manufacturing PMI™

Manufacturing sector operating conditions deteriorate at marginal rate

**Key findings:**

- Manufacturing output and new orders both fall at marginal rates
- Employment down at fastest rate in over three years
- Input cost inflation remains subdued

April data pointed to further reductions in manufacturing output and new business, although rates of decline were marginal in both cases. Consequently, companies remained cautious with regards to hiring, highlighted by the index measuring trends in manufacturing employment reaching its lowest level in 37 months. On the price front, charges at the factory gate were unchanged, while average input costs increased only marginally.

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 49.3 in April, up from 48.3 in March. That indicated a sixth successive month-on-month worsening of manufacturing sector operating conditions in China. The index was nonetheless consistent with a marginal rate of deterioration.

Manufacturing output decreased for a second month running in April, although the rate of contraction was marginal. Moreover, the latest decrease was slower than in March. Where a decline in factory output was recorded, panellists commented on fewer intakes of new business. There were also reports of adverse market conditions.

Goods producers continued to report underlying demand weakness, with incoming new business falling at a marginal rate in April. In addition, the rate of decline in new business was the

slowest in the current six-month period of reduction. In contrast, new export orders rose in April, albeit at a fractional rate.

Growth of work awaiting completion was recorded for the second month running in April, in spite of a further reduction in new orders. However, the rate of backlog accumulation was slight. Meanwhile, companies continued to reduce their staff numbers in April. Although modest, the rate of job shedding was the sharpest in 37 months. Manufacturers commented on employee retirements, resignations and the need to streamline workforce numbers in response to lower output requirements.

Purchasing activity rose marginally in April, while companies further depleted their stocks of purchases. However, the rate of inventory depletion remained slight. Limited demand for raw materials meant that average vendor performance deteriorated at the weakest rate since October 2011.

Average input costs faced by manufacturing firms rose again in April, although the rate of inflation was marginal. Higher fuel and raw material costs were mentioned as the main drivers of inflation. Some panellists also commented on increased transportation and labour-related costs. Meanwhile, latest data signalled no change in average tariffs, ending a five-month period of reduction. Where a fall in factory gate charges was recorded, companies commented on the need to stimulate fragile demand. Manufacturers that reported a rise attributed this to the passing on of higher costs to clients.

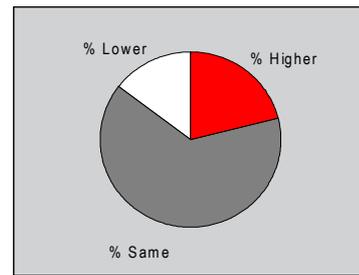
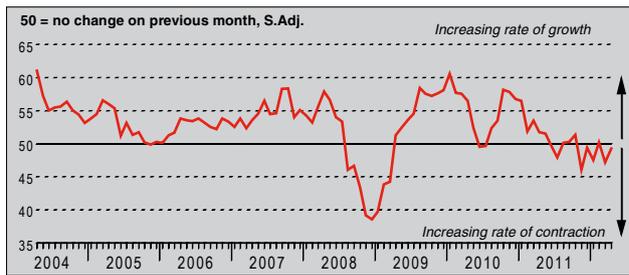
HSBC China Purchasing Managers' Index™ (PMI™)



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

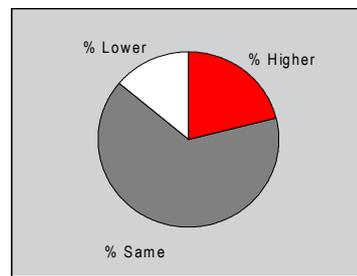
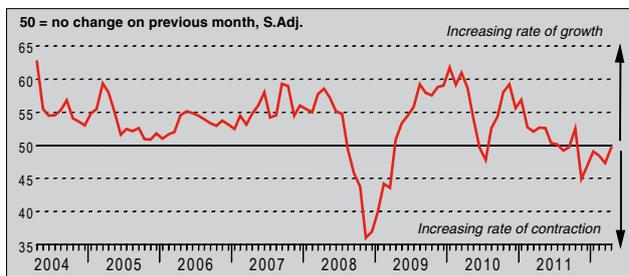
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in China decreased for a second successive month during April. However, the latest seasonally adjusted Output Index reading was consistent with a marginal pace of reduction. Moreover, the overall decline in factory output was weaker than in March. Anecdotal evidence provided by survey respondents suggested that reduced production reflected lower levels of incoming new business. There were also reports of a general deterioration in market conditions.

### New Orders Index

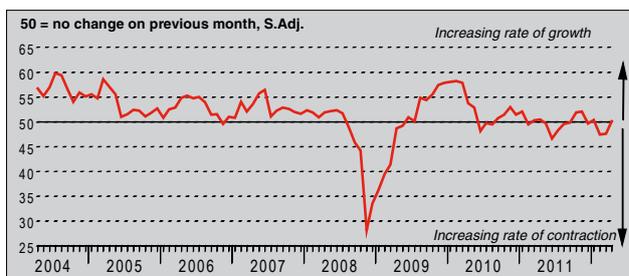
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



After adjusting for seasonal factors, the New Orders Index registered below the neutral 50.0 threshold in April, signalling a further month-on-month reduction in new orders placed at goods producers. By posting a six-month high, however, the latest index reading was consistent with a marginal rate of decline in new work. Where a fall in new orders was recorded, companies commented on muted demand conditions from both domestic and external markets.

### New Export Orders Index

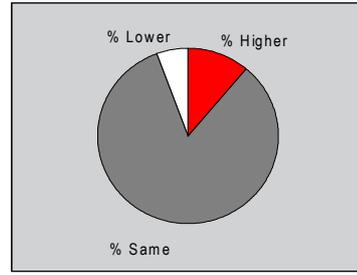
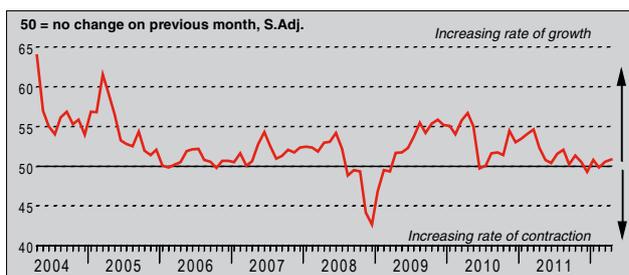
Q. Please compare the level of new export orders received this month with the situation of one month ago.



April data pointed to a negligible rise in new export business received by manufacturing firms in China. The broad stabilisation followed moderate reductions in both February and March. The vast majority of survey participants (exactly 79%) reported no change in foreign orders levels since the preceding month. Survey participants mentioned that subdued demand on global markets had stifled new export order growth during the latest survey period.

### Backlogs of Work Index

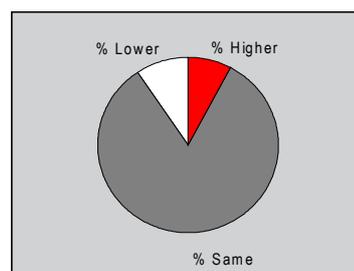
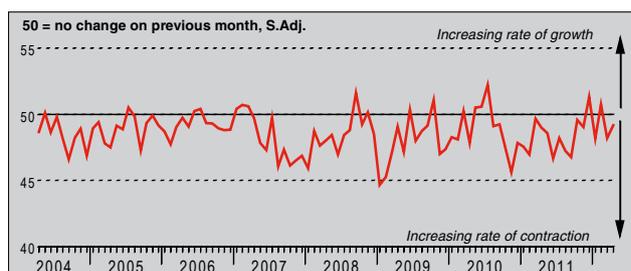
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Growth of outstanding business in the Chinese manufacturing sector was sustained for the second consecutive month during April. This occurred despite a further reduction in overall new business. Despite rising to a six-month high, the seasonally adjusted Backlogs of Work Index pointed to only a marginal rate of backlog accumulation.

## Stocks of Finished Goods Index

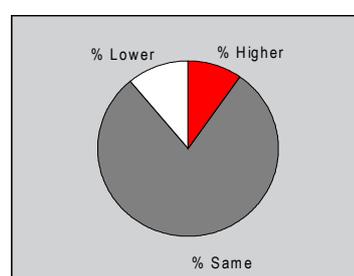
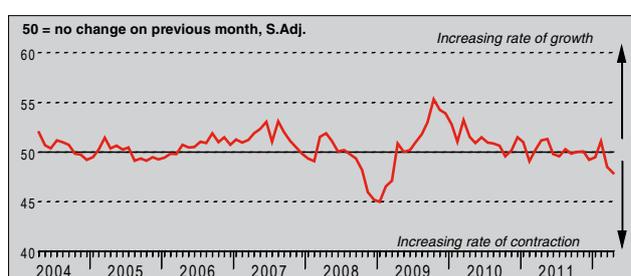
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stock holdings of finished goods in the Chinese manufacturing sector decreased during April, although the rate of inventory depletion remained marginal. The seasonally adjusted Stocks of Finished Goods Index has now posted below the 50.0 no-change mark, signalling contraction, in 19 of the past 21 months. 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

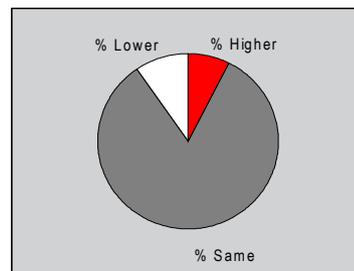
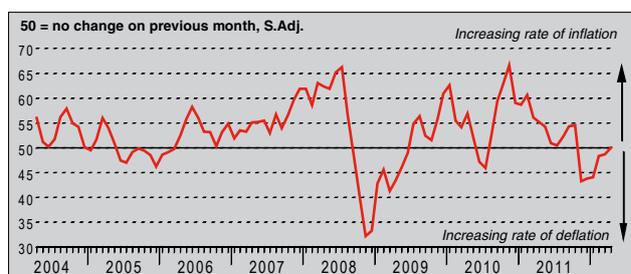
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in China decreased again during April, with almost 8% of panellists reporting a reduction from one month earlier. This compared to 6% that noted a rise. Although modest, the rate of job shedding in the sector was the sharpest in 37 months. Employee retirements, resignations and the need to streamline workforce numbers in response to lower output requirements were all mentioned as having contributed to the overall reduction.

## Output Prices Index

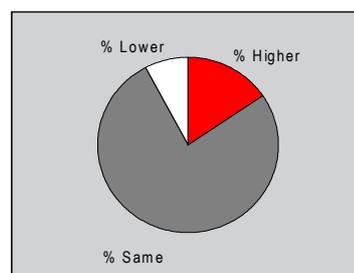
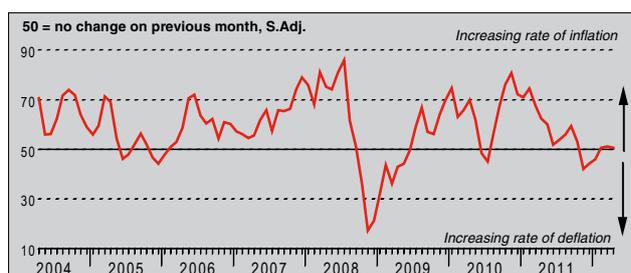
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



April data signalled that prices charged by goods producers were unchanged compared to the preceding month, ending a five-month period of decline. Companies that reported a fall in output prices commented on increased competition for new business. Where a rise in average tariffs was mentioned, this was linked to higher input costs being passed on to clients.

## Input Prices Index

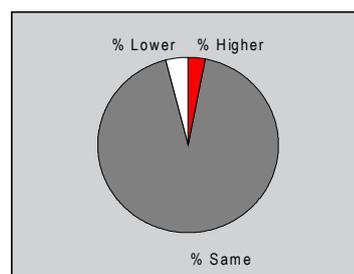
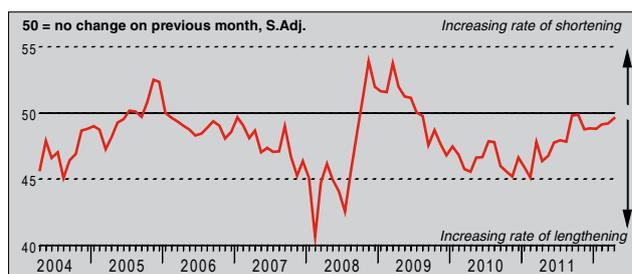
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



By posting a plus-50 reading in April, the seasonally adjusted Input Prices Index signalled a continued rise in average input costs faced by manufacturing firms. The rate of inflation was marginal, however, and slower than in March. Companies commented on higher prices paid for fuel and raw materials. There were also reports of increased labour-related and transportation costs.

## Suppliers' Delivery Times Index

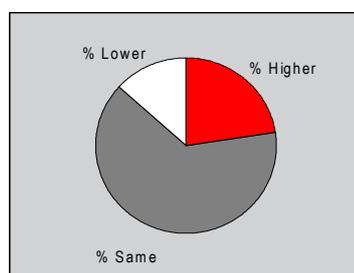
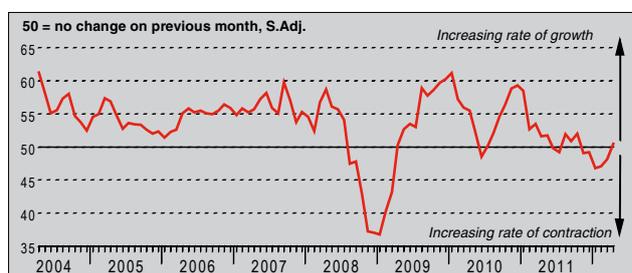
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by vendors to deliver inputs to Chinese manufacturers lengthened in April. Anecdotal evidence suggested that longer lead times reflected transportation difficulties and supply shortages at vendors. However, the rate of deterioration in supplier performance was marginal, and the weakest since October 2011. The vast majority of panellists (around 93%) reported no difference in the performance of vendors since the preceding month.

## Quantity of Purchases Index

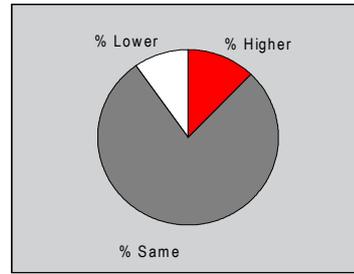
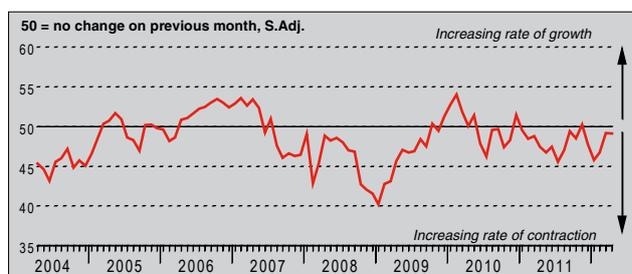
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



After adjusting for seasonal factors, the Quantity of Purchases Index posted above the 50.0 mark that separates growth from contraction in April, signalling a first month-on-month rise in purchasing activity since October 2011. The latest index reading nonetheless pointed to a marginal expansion of input buying. Companies responding to the latest survey attributed the below-trend rise in purchasing to lower output requirements and subdued demand for their products.

## Stocks of Purchases Index

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



In line with the trend observed since December 2011, stocks of raw materials and semi-manufactured goods in the Chinese manufacturing sector fell during April. However, the pace of reduction remained marginal. Moreover, the seasonally adjusted Stocks of Purchases Index was unchanged on March's four-month high. Anecdotal evidence provided by survey respondents suggested that inventory depletion mainly reflected below-trend growth of purchasing.

## 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 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.

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