

HSBC China Manufacturing PMI™

Sharper declines in output, new business and export orders in June

Key findings:

- New orders fall to greatest extent in seven months, as export orders slump
- Factory output declines marginally in comparison; stocks of finished goods rise
- Input costs and output charges down at sharpest rates in 39- and 42-months respectively

China's goods producers reported an eighth successive month-on-month deterioration in operating conditions during June, as output, incoming new orders and employment continued to decrease. 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 – inched lower from 48.4 to 48.2 in June, a level indicative of a modest pace of deterioration in business conditions. For the second quarter as a whole, the index averaged its lowest quarterly value since Q1 2009.

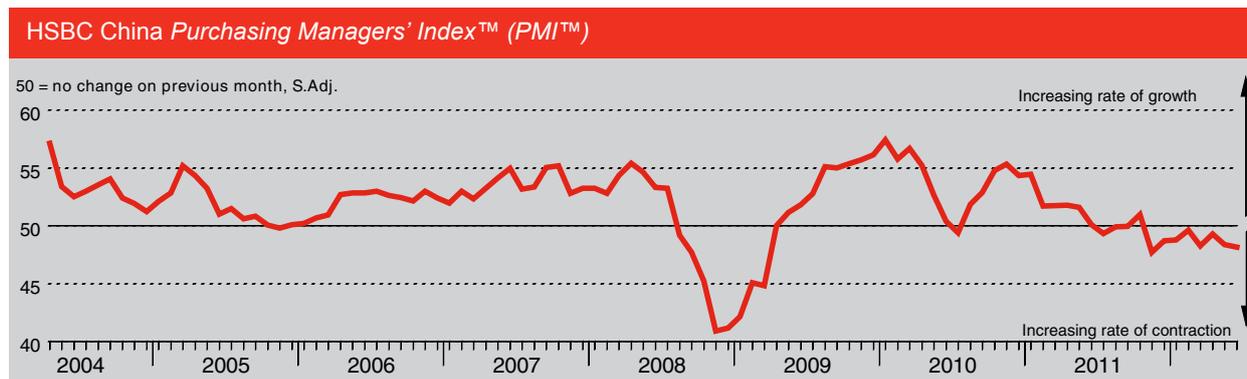
A lack of demand was behind the latest deterioration in operating conditions, with total and foreign new orders falling at accelerated rates in June. New export orders placed at goods producers dropped at the steepest rate in over three years. North America and Europe were both cited as sources of new order book weakness. Meanwhile, the month-on-month fall in overall new orders (exports plus domestic) was the strongest in 2012 to date. The drop in total new orders led to a further decline in manufacturing output, extending the current period of contraction to four months. However, the rate of decline in factory output remained marginal.

Manufacturing production decreased at a far weaker rate than new orders, which resulted in the second-largest increase in finished goods inventories since data were first compiled in April 2004.

The size of China's manufacturing workforce contracted for the fourth month running in June, albeit at only a modest rate that was the weakest in three months. Job shedding in part reflected spare capacity in the sector, which was highlighted by a slight decline in backlogs of work. The index measuring trends in work outstanding rarely dips below the 50.0 no change mark, and the latest reading was the lowest in 2012 so far.

A further shortening of vendor lead times showed little pressure being placed on supplier capacity in June, as input buying by goods producers decreased for a second successive month. Although modest, the rate of improvement in vendor performance was the greatest in over three years. Companies continued to express a preference towards stock depletion, with holdings of pre-production goods falling for the seventh month running in June.

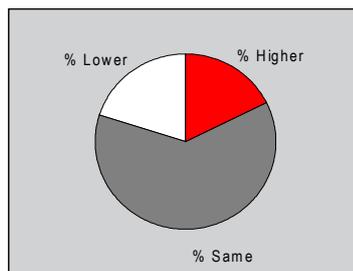
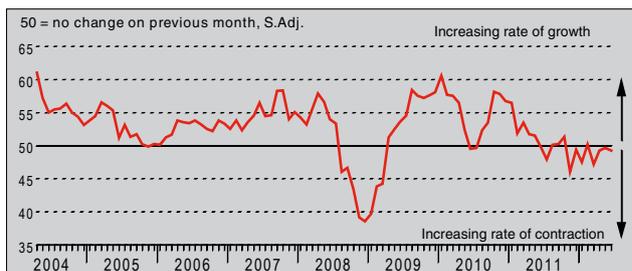
China's goods producers reported a sharp decline in average costs during June, with the pace of reduction accelerating to the sharpest since March 2009. Reduced purchasing costs in part reflect falling global prices for a variety of commodities and crude oil. Companies reduced their factory gate charges as a result, with the extent of the decline similar to that seen for average costs. Indeed, the pace of output price discounting was the steepest in 42 months. Some manufacturers reported that competitive pressures had also contributed to the latest drop in selling prices.



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

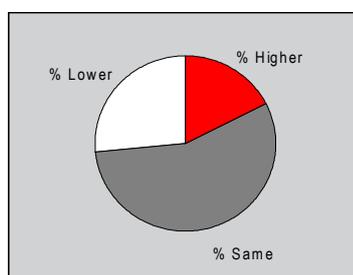
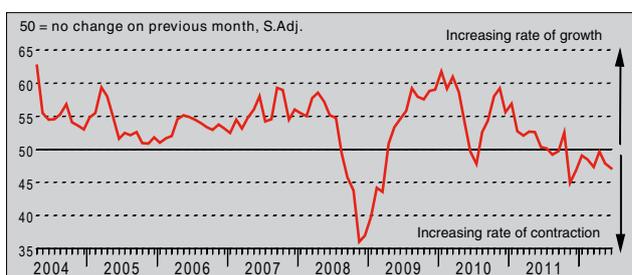
Q. Please compare your production/output this month with the situation one month ago.



Chinese manufacturing production decreased again during June, with the seasonally adjusted Output Index posting below the neutral level of 50.0 for the fourth month in succession. However, the latest index reading was consistent with only a marginal rate of decline in factory output. Of those survey participants that noted a reduction in production from the month before (around 20%), many attributed this to lower levels of incoming new business.

New Orders Index

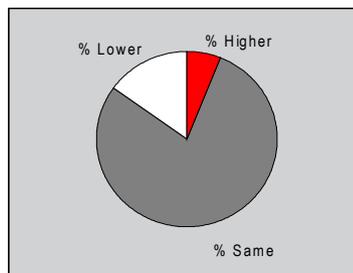
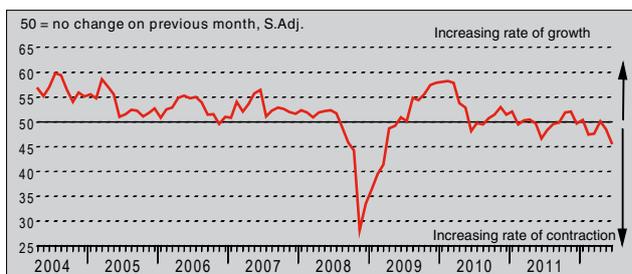
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



Demand for China's manufactured goods continued to ebb in June, with the seasonally adjusted New Orders Index pointing to an eighth successive month-on-month decline in new business. The pace of reduction in new work was solid, and the sharpest in 2012 to date. Moreover, the latest index reading was the third-lowest in 39 months. Where a decrease in new orders was indicated, panellists commented on muted demand in both home and external markets.

New Export Orders Index

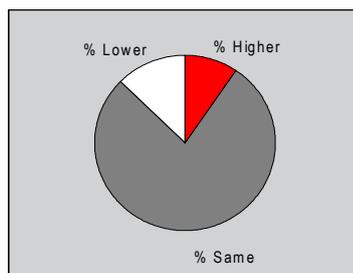
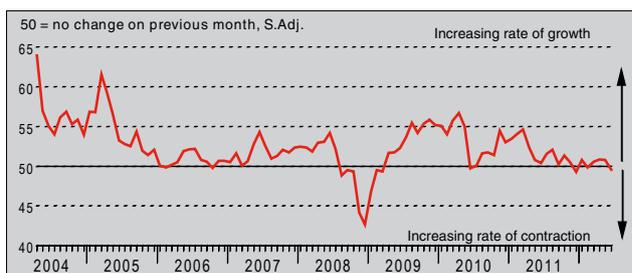
Q. Please compare the level of new export orders received this month with the situation of one month ago.



June data pointed to another decline in the volume of new export business placed at manufacturing firms, with around 15% of panellists noting a fall. This compared to 6% that recorded an increase. The seasonally adjusted New Export Orders Index was at a level indicative of a solid pace of decline in new export business that was the sharpest in 39 months. Reduced foreign order levels were linked by survey respondents to weak external demand, with North America and Europe mentioned in particular.

Backlogs of Work Index

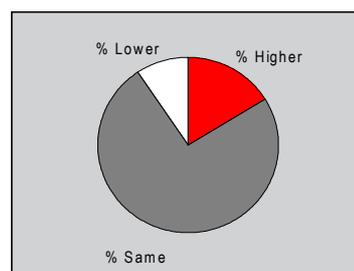
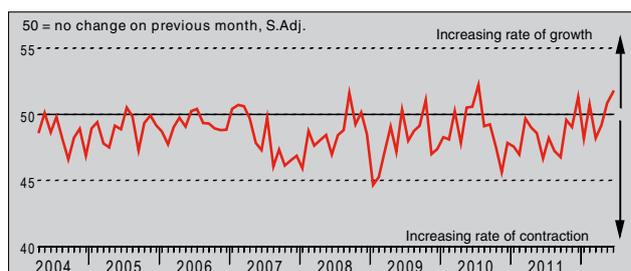
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Capacity levels at Chinese goods producers' plants were little tested in June, with backlogs of work falling for the first time in four months. The rate of decline in work outstanding was marginal, however, with the majority of panellists (almost 78%) signalling no change in volumes of work-in-hand (but not yet completed) since the month before. The overall reduction in backlogs of work mainly reflected fewer intakes of new business, according to survey respondents.

Stocks of Finished Goods Index

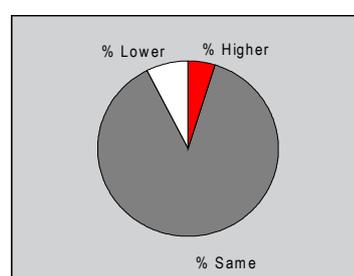
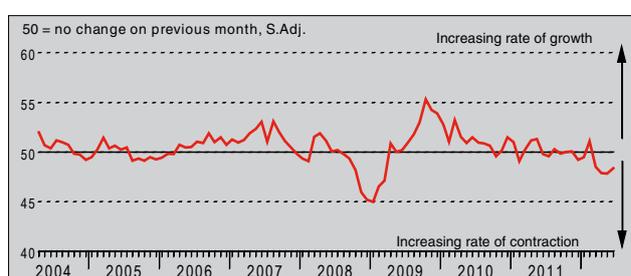
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



June data pointed to further rise in post-production inventories at Chinese goods producers. Anecdotal evidence provided by survey respondents suggested that weaker-than-expected sales had contributed to the latest rise in inventory holdings, with the divergence between indexes measuring trends in output and new business among the largest on record. Although modest, the rate of stock accumulation was the second-sharpest since data were first compiled in April 2004.

Employment Index

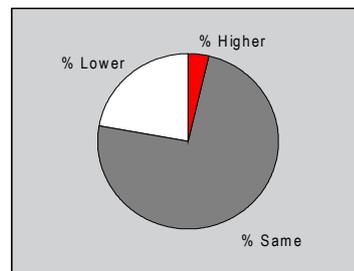
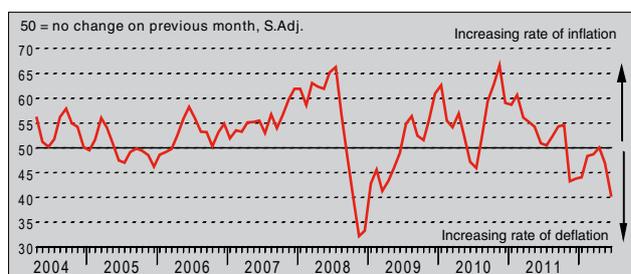
Q. Please compare the level of employment at your unit with the situation one month ago.



After accounting for seasonal trends, the Employment Index signalled another month of job shedding in China's manufacturing sector. June's index nevertheless pointed to a modest rate of decline in employment that was the weakest in three months. The latest decrease in workforce numbers was the fourth in as many months. Where a reduction in staffing levels was signalled, companies often linked this to reduced intakes of new orders.

Output Prices Index

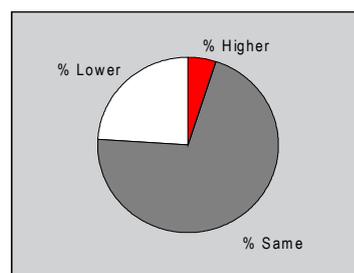
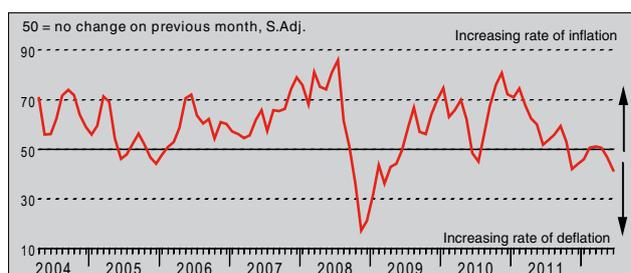
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices set by Chinese manufacturing firms decreased further during June, with around 22% of panellists signalling a decline since the preceding month. The latest reduction in selling prices was sharp, with the seasonally adjusted Output Prices Index falling markedly to a 42-month low. According to survey respondents, lower average tariffs reflected reduced average costs. There were also reports of strong competitive pressures.

Input Prices Index

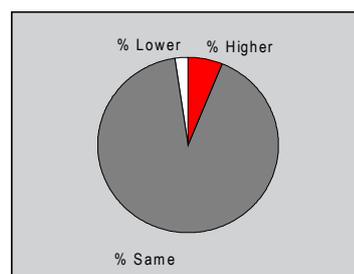
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input costs faced by goods producers decreased sharply during June. Approximately 24% of panellists signalled a fall in purchasing costs from one month before, compared with 5% that noted a rise. The rate of decline in average costs was the sharpest in 39 months. The only other period in the survey history when the seasonally adjusted Input Prices Index has posted below the current level was during the 2008/09 financial crisis. Reduced purchasing costs in part reflect falling global prices for a variety of commodities and crude oil.

Suppliers' Delivery Times Index

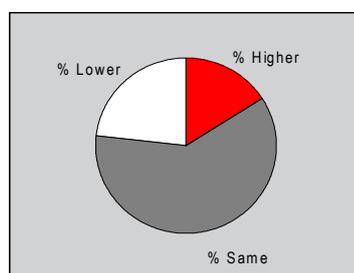
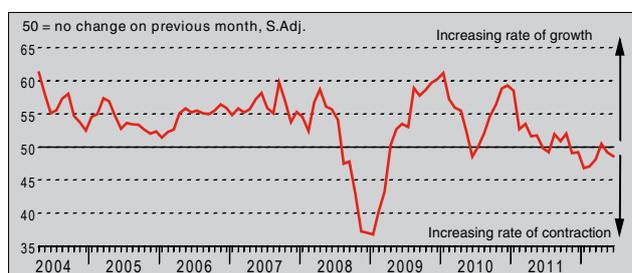
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by vendors to deliver inputs to goods producers shortened for a second successive month in June. Although only modest, the rate of lead time shortening was the steepest since April 2009. Faster delivery times were signalled by 6% of panellists, while just 2% saw a worsening of vendor performance. Companies overwhelmingly attributed the latest improvement in supplier performance to sufficient stock at vendors in the face of suppressed demand for inputs.

Quantity of Purchases Index

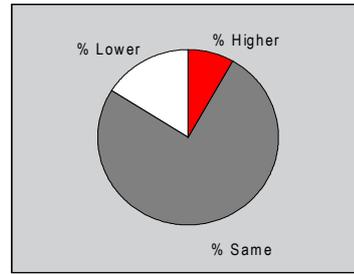
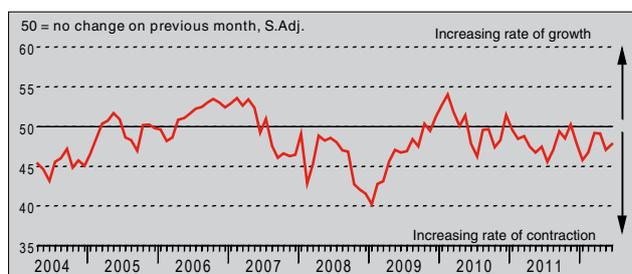
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



As was the case in May, the amount of inputs purchased by China's goods producers decreased during June. The latest seasonally adjusted Quantity of Purchases Index was nonetheless consistent with only a modest rate of decline in purchasing. Around 23% of panellists noted a decline in input buying from the month before, which many attributed to lower output requirements. There were also reports of deliberate stock reduction policies.

Stocks of Purchases Index

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



Manufacturers in China reported a seventh successive month-on-month decrease in stocks of purchases at their plants. Around 16% of survey participants mentioned a reduction in inventory holdings since the preceding month, compared to 8% that noted an increase. The rate of stock depletion was solid, albeit slightly slower than in May. Where a decline in pre-production inventories was recorded, panellists commonly linked this to reduced purchasing activity.

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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