

HSBC China Manufacturing PMI™

Manufacturing output rises for first time in five months

Key findings:

- Factory output up only marginally
- Employment down at sharpest rate in 40 months
- Fall in average costs continues

July data showed that manufacturing sector operating conditions deteriorated at a slower rate, as factory production rose – for the first time in five months – and new business decreased at a weaker pace. Inventories of inputs also fell to a weaker extent, while supplier delivery times shortened at only a marginal rate. However, manufacturing employment declined at the sharpest rate in over three years.

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 July, up from 48.2 in June, signalling only a marginal deterioration in Chinese manufacturing sector operating conditions. Moreover, the month-on-month increase in the index was the largest in 21 months.

Manufacturing production in China increased during July, ending a four-month period of contraction. Despite reaching a nine-month high, the index measuring monthly trends in manufacturing output was at a level indicative of only a marginal rate of expansion.

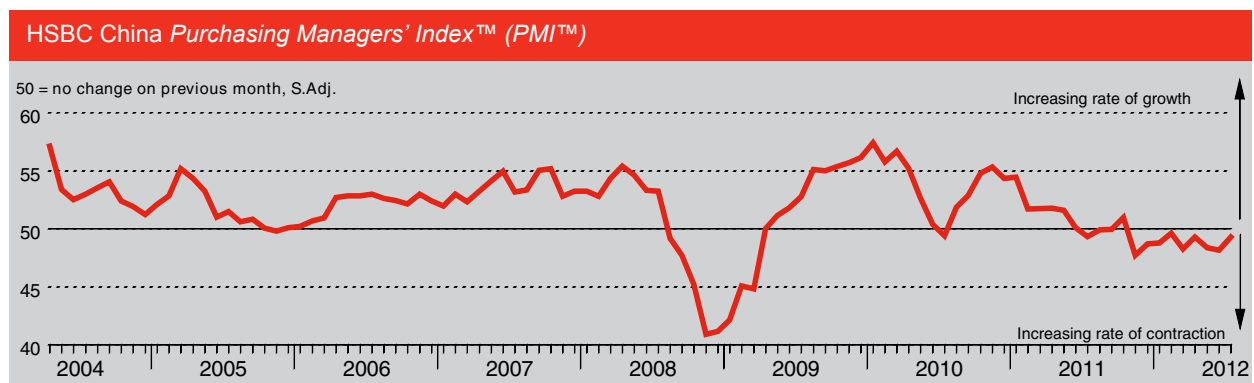
Another decline in the volume of new business placed at China's goods producers was signalled by July's survey. The pace of reduction in new work was only modest, however, and the weakest in three months. New export business also decreased

at a slower rate.

Latest survey findings signalled a renewed rise in work awaiting completion, although the rate of backlog accumulation was only slight. Meanwhile, companies continued to reduce their staff numbers during the month, with the pace of job shedding accelerating to the sharpest in 40 months. Manufacturers commented on employee retirements, company downsizing and the need to streamline workforce numbers in response to falling new order volumes.

Average vendor lead times shortened in July, for the third month running, although the rate of improvement in supplier performance was marginal. Meanwhile, a further decline in purchasing contributed to a reduction in stocks of pre-production goods. However, the rate of inventory depletion was the slowest in the current eight-month period of decline.

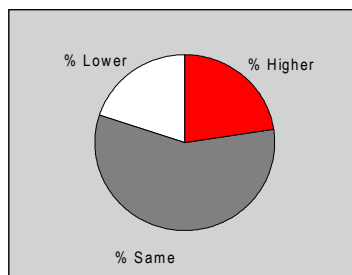
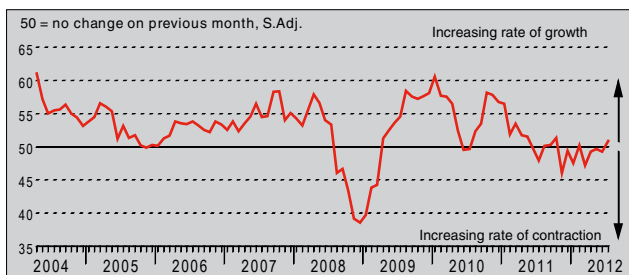
Average input costs faced by manufacturing firms decreased for the third successive month in July, mainly reflecting lower raw material prices. Companies also mentioned reduced prices paid for fuel. Despite easing slightly from one month ago, the rate of reduction in average costs remained sharp. Consequently, companies passed on reduced costs to clients through lower average tariffs. Some respondents also mentioned competitive pressures. The pace of output price discounting was steep, albeit slightly weaker than in June.



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

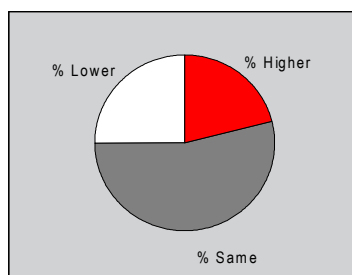
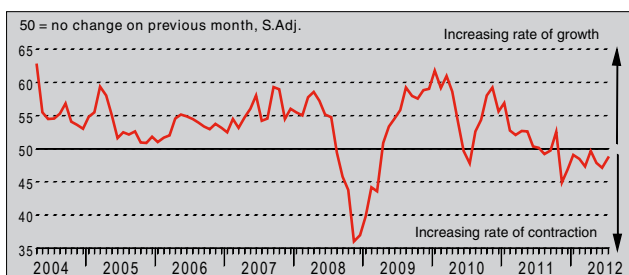
Q. Please compare your production/output this month with the situation one month ago.



After adjusting for seasonal factors, the Output Index posted above the neutral 50.0 threshold in July, signalling a first month-on-month rise in factory output since February. Despite reaching a nine-month high, the latest index reading was consistent with only a marginal rate of expansion in manufacturing output. Almost 23% of survey respondents mentioned an increase in production since the month before, compared with 20% that signalled a decline.

New Orders Index

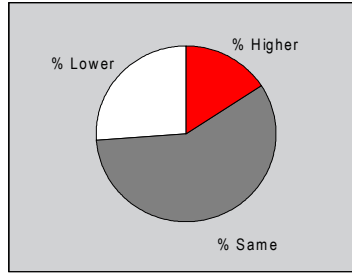
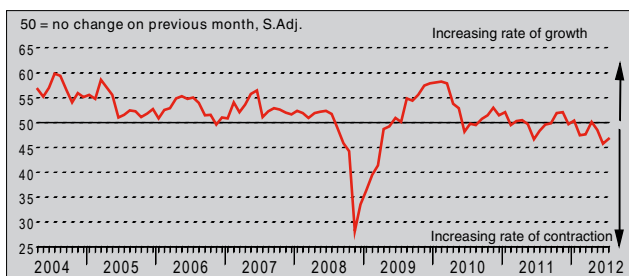
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



The volume of incoming new business received by Chinese manufacturing firms decreased again during July, extending the current period of contraction to nine months. Where a drop in new orders was signalled, companies mentioned weak client demand. The latest seasonally adjusted New Orders Index reading was nonetheless consistent with only a modest rate of decline in new business. Moreover, the latest decrease was the slowest in three months.

New Export Orders Index

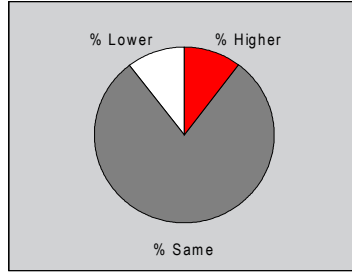
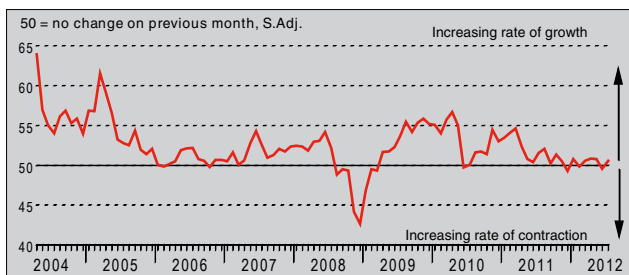
Q. Please compare the level of new export orders received this month with the situation of one month ago.



July data pointed to another decline in new export orders placed at China's goods producers. The seasonally adjusted New Export Orders Index, which has now posted below the neutral 50.0 threshold for three months in succession, was at a level indicative of a solid rate of decline in new export business. Around 26% of panellists reported a drop in foreign order levels since the month before, which the majority linked to fragile demand on global markets.

Backlogs of Work Index

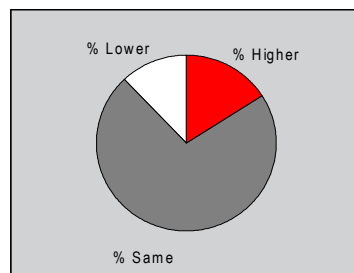
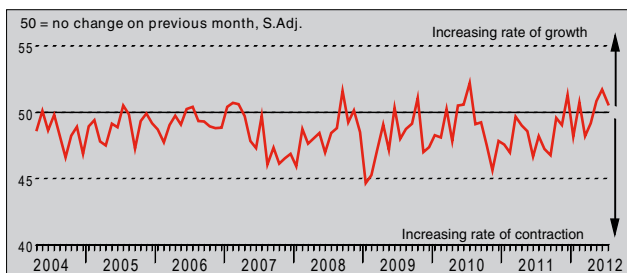
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



July data signalled a renewed expansion of backlogs of work in China's goods producing sector. This occurred despite a further decline in new orders. However, the rate of backlog accumulation was only marginal, with the vast majority of panellists (around 79%) recording no change in volumes of work-in-hand (but not yet completed) since the month before.

Stocks of Finished Goods Index

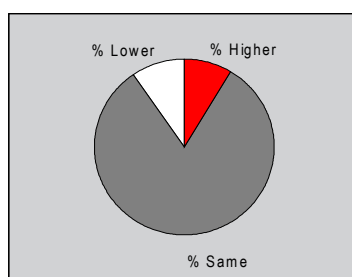
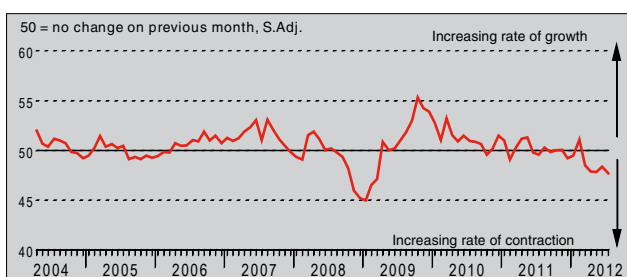
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Holdings of post-production goods in the Chinese manufacturing sector increased during July, with the seasonally adjusted Stocks of Finished Goods Index posting above the neutral 50.0 threshold for the third month in a row. The rate of inventory accumulation was marginal, however, and weaker than in the preceding month. Higher stock levels largely reflected weaker-than-expected sales, according to respondents to the latest survey.

Employment Index

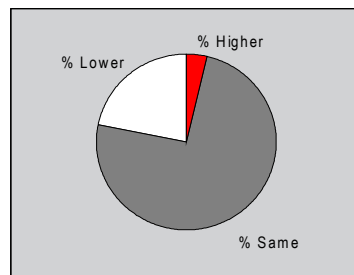
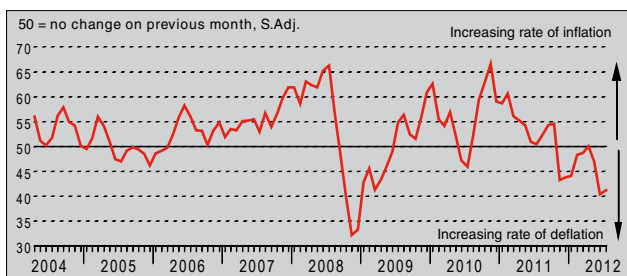
Q. Please compare the level of employment at your unit with the situation one month ago.



The size of China's manufacturing sector workforce continued to contract at the start of the third quarter. Anecdotal evidence provided by survey respondents suggested that job shedding reflected fewer intakes of new orders. There were also reports of employee retirements and company downsizing. The rate of job shedding was moderate, and sharper than the month before. Indeed, the seasonally adjusted Employment Index posted its lowest reading in 40 months.

Output Prices Index

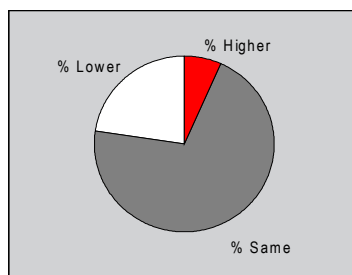
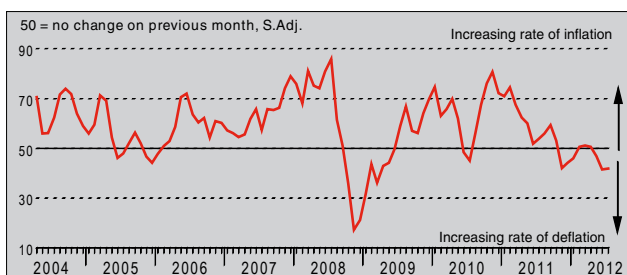
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Chinese manufacturers for their final products decreased further during July, with the Output Prices Index posting below the neutral level of 50.0 for the third month in succession. The index was at a level indicative of a sharp rate of output price discounting. Almost 22% of the survey panel recorded a decrease in average tariffs since June, compared to just 4% that noted an increase. Lower selling prices were mostly linked to falling input costs. Some respondents also mentioned competitive pressures.

Input Prices Index

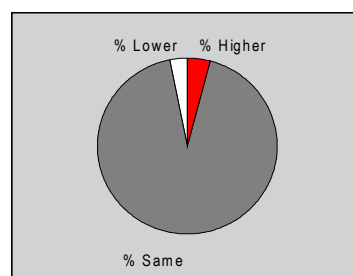
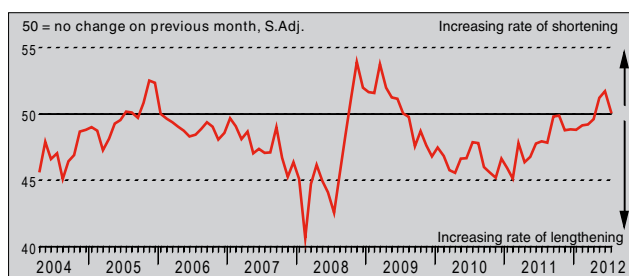
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



July data signalled a third successive month-on-month decrease in average input costs faced by Chinese manufacturers. The rate of decline in purchasing costs was sharp, and broadly unmoved from the month before. Of the 20% of survey participants that recorded a decrease in input prices, the overwhelming reason given was that raw material costs had fallen over the month. Some respondents also mentioned reduced prices paid for fuel.

Suppliers' Delivery Times Index

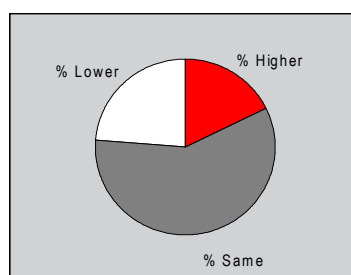
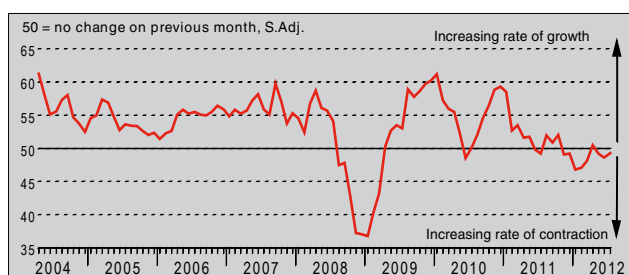
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by suppliers to deliver inputs to Chinese manufacturers continued to shorten at the start of the third quarter. Where an improvement in average vendor performance was recorded, panellists often linked this to sufficient stock levels at suppliers. The rate of lead time shortening was marginal, however, and the slowest in the three-month period of better vendor performance. The vast majority of panellists (almost 93%) reported no change in delivery schedules since the month before.

Quantity of Purchases Index

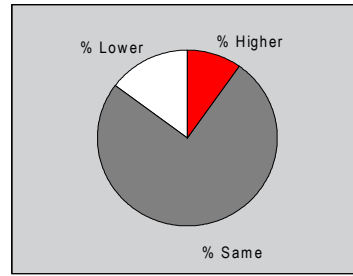
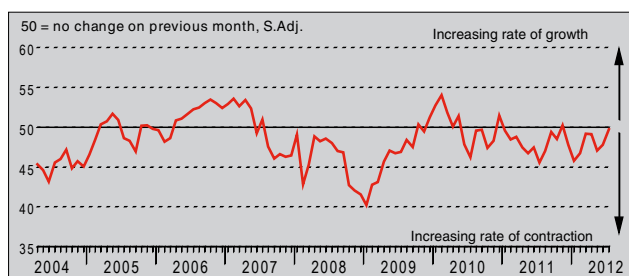
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



After adjusting for seasonal factors, the Quantity of Purchases Index signalled that Chinese manufacturers purchased fewer inputs compared to the previous month, with approximately 24% reporting a decrease from one month ago. The rate of decline in buying was only marginal, however, and slower than in the preceding month. Anecdotal evidence 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.



Holdings of pre-production goods at Chinese manufacturers' plants fell for an eighth successive month in July, with approximately 15% of survey respondents reporting a decrease from one month before. However, the seasonally adjusted Stocks of Purchases Index was at a level indicative of only a marginal rate of stock depletion. According to survey respondents, the latest decline in pre-production inventories reflected 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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