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# HSBC China Manufacturing PMI™

Operating conditions improve at fastest rate in 19 months

## Key findings:

- Output expands at the quickest rate since March 2011
- Total new orders rise despite slight fall in new export orders
- Purchasing activity increases at the fastest pace in 21 months

December data signalled an expansion of output in the Chinese manufacturing sector for the second successive month. New orders also rose at a moderate pace, but new export orders fell (albeit marginally). Buying activity increased at the fastest pace since March 2011, leading to increased stocks of purchases. On the price front, input costs rose at a marked pace while output charges increased modestly.

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 51.5 in December, up from 50.5 in November, signalling a modest improvement of operating conditions in the Chinese manufacturing sector. Moreover, it was the highest index reading since May 2011.

Output at manufacturing plants in China expanded in December, and for the second month in a row. Although the rate of expansion was modest, it was the fastest in 21 months. Total new orders also increased but at a faster pace than in November, the quickest since January 2011. Exactly 15% of panellists noted increased order volumes, a number of which attributed growth to increased client demand. Meanwhile, new export orders fell slightly following a modest increase in November. Just over 12% of firms reported lower new export orders in the latest survey period. Fewer export sales were linked to weak demand in Europe, Japan and the US.

Backlogs of work were broadly unchanged in December, with

the index signalling a fractional reduction in work-in-hand. A majority of survey respondents (nearly 85%) reported no change in the level of outstanding business. Employment levels also remained broadly similar in December, with nearly 92% of panellists noting no change to workforce numbers.

Average lead times lengthened for the third month in a row in December. However, the rate of deterioration weakened at only a negligible pace.

Input prices at manufacturing plants continued to increase in December, and for the third successive month. The rate of inflation eased slightly from November but remained marked overall. Average tariffs also increased during December, after remaining broadly similar in November. Output charges rose at an accelerated pace that, although modest, was the quickest in 14 months. Anecdotal evidence suggested that tariffs were raised in line with rising market demand and higher input costs. Purchasing activity rose at a marked rate in December, the fastest since March 2011. Exactly 17% of panellists reported increased input buying. Consequently, stocks of purchases also rose. Even though the pace of stock accumulation was only slight, it was the quickest in two years. Rises in input buying and stocks of purchases were generally associated with higher new order volumes.

Finally, post-production stocks were depleted for the third successive month, but at a fractional pace.



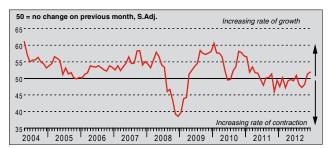
The HSBC China *Purchasing Managers' Index* ™ (*PMI*™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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.

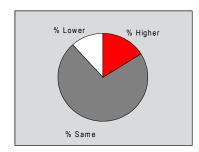




# **Output Index**

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



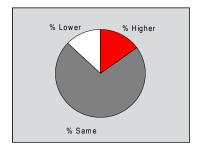


The seasonally adjusted Output Index signalled an expansion of output in China's manufacturing sector for the second consecutive month in December. The rate of expansion quickened slightly from November to a modest pace, the fastest in 21 months. Just over 16% of survey respondents reported higher output in the latest survey period, compared with just fewer than 12% that noted a reduction. A number of panellists linked output growth to a rise in new orders.

## 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 indicated that total new orders received at manufacturing plants rose for the third successive month in December. The rate of growth quickened from November's marginal pace and was marked, with exactly 15% of panellists reporting a higher number of new orders in December. The rise in new orders was generally associated with increased market demand.

# New Export Orders Index

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



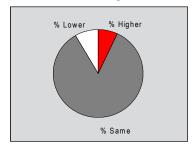


New export orders fell in December, following a modest increase in November. However, the seasonally adjusted New Export Orders Index signalled that the rate of reduction was only marginal. Just over 12% of panellists noted a fall in new export orders, compared with just under 11% that reported a rise. Anecdotal evidence suggested that the decline was due to weak demand in Europe, Japan and the US.

# Backlogs of Work Index

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



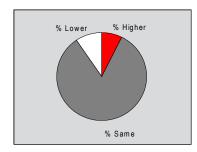


The level of outstanding business at manufacturing plants was broadly unchanged in December. After adjusting for seasonality, the Backlogs of Work Index posted fractionally below the 50.0 threshold, signalling a negligible fall in work-in-hand. Over 8% of respondents indicated a lower level of outstanding business in the latest survey period, although a majority (nearly 85%) signalled no change.

## Stocks of Finished Goods Index

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

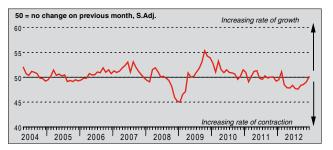


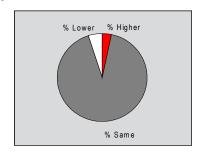


Stocks of finished goods fell for the third consecutive month in December. That said, the rate of stock depletion eased from November and was only fractional. Over 9% of survey respondents indicated a reduced level of stocks, compared with just over 7% that reported an increase. The fall in post-production goods was linked to increased sales by a number of panellists.

#### **Employment Index**

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



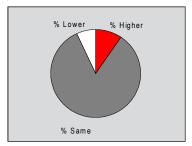


Employment levels were relatively unchanged at manufacturing firms during December, after a nine-month period of reduction. The seasonally adjusted Employment Index posted just above the 50.0 neutral threshold, signalling a negligible increase to staffing levels. However, a majority of firms (nearly 92%) reported no change to workforce numbers.

# **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.



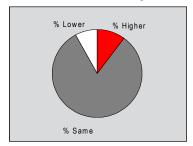


Average tariffs set by manufacturers increased during December, after remaining broadly unchanged during November. The rate of output charge inflation was modest, the quickest in 14 months. Nearly 10% of survey respondents recorded higher average tariffs, compared with just less than 7% that signalled a reduction. Increased charges were generally associated with higher raw material costs and rising market demand.

# Input Prices Index

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



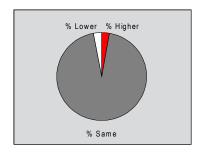


Average input costs increased at manufacturing plants for the third successive month in December. Input price inflation eased slightly from November to a modest pace, with just over 10% of respondents reporting higher input costs. A number of panellists mentioned the main driver of inflation was increasing raw material costs.

## Suppliers' Delivery Times Index

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



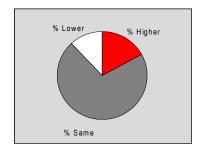


Average lead times lengthened for the third month in a row in December. The rate of deterioration had slowed from November and remained marginal overall. Moreover, a majority of panellists (over 94%) indicated no change to average suppliers' delivery times, compared with exactly 3% that noted longer times. Anecdotal evidence linked longer average lead times to an increased number of orders placed at vendors.

## Quantity of Purchases Index

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



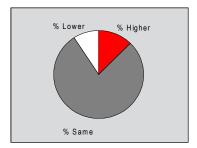


Purchasing activity increased for the third successive month in December. The rate of growth accelerated from November to a marked pace. Moreover, it was the fastest rise in input buying for 21 months, with exactly 17% of panellists recording a higher quantity of purchasing. The rise in input buying was attributed to increased new orders by a number of respondents.

# Stocks of Purchases Index

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





Stocks of pre-production goods rose for the second consecutive month in December. The rate of stock accumulation quickened from November, but remained marginal overall. That said, it was the fastest rate of inventory growth in two years, with more than 12% of survey respondents reporting increased stock levels. A number of panellists suggested that inventories grew in response to increased incoming orders and higher 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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