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# HSBC China Manufacturing PMI™

Operating conditions improve in February, albeit marginally

#### Key findings:

- Slight expansion of output
- Total new orders increase at modest pace
- Suppliers' delivery times improve for the first time since last September

Output in the Chinese manufacturing sector expanded for the fourth consecutive month in February. New orders also rose, and at a modest pace, while exports increased fractionally. Purchasing activity rose on the back of new order growth, while stocks of purchases fell for the first time in four months. Staffing levels expanded fractionally and backlogs of work were reduced, albeit marginally. On the price front, input costs rose at a marked pace, while output charges were raised modestly.

After adjusting for the strong seasonal factors associated with the Spring Festival, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted 50.4 in February, down from 52.3 in January, signalling a marginal strengthening of operating conditions in the Chinese manufacturing sector. The PMI has now posted above the 50.0 no-change mark for four successive months.

Output also expanded for the fourth month in a row in February. That said, the rate of expansion eased from January and was marginal. New orders rose for the fifth successive month and at a modest pace. New export orders also increased, though at a fractional rate. Anecdotal evidence suggested export growth was due to increased demand in Europe, Japan and the US.

The level of outstanding business at manufacturing plants declined in February, following a marginal increase in January. That said, the rate of depletion was only slight. Employment levels increased for the third month in a row. The rate of job

creation was fractional, with a majority of panellists (nearly 89%) reporting no change.

Vendor performance improved in February. This was the first time delivery times have shortened since last September. The rate of improvement was marginal, and anecdotal evidence suggested fewer orders were being placed at vendors.

Average input costs rose for the fifth month in a row in February. Despite easing from January, the rate of inflation was marked overall, with more than one-in-ten panellists recording increased input costs. Higher raw material costs were said to be the main driver of inflation. Output charges rose at a modest pace in February. Average tariffs have now risen for the past three months, with a number of firms linking inflation to both the passing-on of higher raw material costs and increased client demand.

Input buying increased for the fifth successive month in February. However, the rate of growth eased from January and was modest, the weakest in four months. The rise in purchasing activity was generally associated with new order growth. Stocks of purchases, meanwhile, fell for the first time in four months, and at a modest pace.

Inventories of finished goods fell for the fifth month in a row in February. That said, the rate of reduction continued to be marginal, and linked to increased use of current stocks by a number of survey respondents.



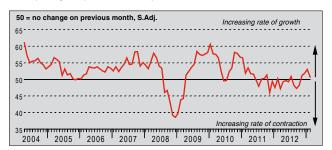
The HSBC China *Purchasing Managers' Index* ™ (*PMI*™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

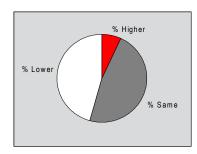




#### **Output Index**

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



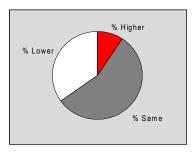


February data signalled an expansion of output in the Chinese manufacturing sector for the fourth successive month. However, after adjusting for seasonal factors, the rate of growth eased from January's two-year high and was marginal. Approximately 7% of survey respondents reported increased production in the latest survey period, and anecdotal evidence suggested the rise was associated with new order growth.

#### New Orders Index

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





The seasonally adjusted New Orders Index signalled an increased level of new orders in the manufacturing sector for the fifth consecutive month in February. The rate of growth was modest though, having slowed from the previous month. A number of survey respondents linked growth to strengthened underlying client demand.

# New Export Orders Index

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



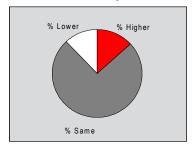


New export orders increased for the second month in a row in February. After adjusting for seasonality, the New Export Orders Index signalled a fractional rate of growth, which was similar to that seen in January. Approximately 10% of survey respondents noted higher export orders in February, a number of which attributed the rise to increased demand from 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.

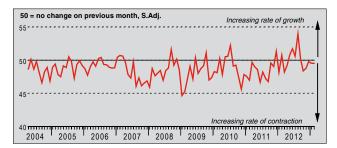


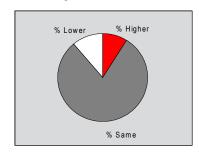


The level of outstanding business at manufacturing firms declined in February, following a marginal accumulation at the start of the year. After adjusting for seasonal factors, the rate of backlog depletion was slight, with just over 12% of panellists recording a reduction. Anecdotal evidence suggested the level of work-in-hand had fallen due to spare capacity at plants.

#### Stocks of Finished Goods Index

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



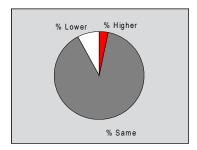


The seasonally adjusted Stocks of Finished Goods Index signalled a net reduction of stocks for the fifth consecutive month in February. The rate of depletion was broadly unchanged from January, remaining slight overall, with around 9% of survey respondents recording a reduction. Panellists attributed the decline to a combination of reduced production and increased utilisation of existing inventories.

#### **Employment Index**

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

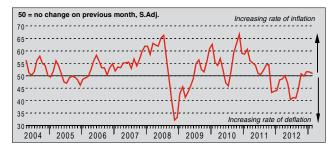


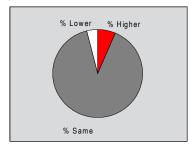


Staffing levels increased in the manufacturing sector for the third month in a row in February. After adjusting for seasonal factors, the rate of job creation eased from January and was fractional, with just over 3% of survey respondents recording an expansion of workforce numbers. However, a majority of survey respondents (nearly 89%) noted no change. Job creation was linked to both increased production and new projects at a number of firms.

## 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.



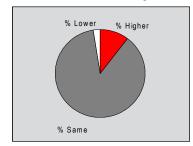


Output charges increased for the third successive month in February. The seasonally adjusted Output Price Index signalled a marginal rate of inflation, having eased from the previous month. Just over 6% of panellists reported inflation in the latest survey period, compared with exactly 4% that discounted tariffs. Anecdotal evidence linked inflation to a combination of higher raw material costs and increased client demand.

## Input Prices Index

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



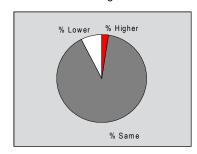


Average input prices increased for the fifth month in a row during February. After adjusting for seasonality, the rate of input price inflation eased slightly from January, but was marked overall. Over 10% of survey respondents recorded increased purchasing costs, while just over 2% reported a reduction. A number of survey respondents mentioned rising raw material costs as the main driver of inflation.

#### Suppliers' Delivery Times Index

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

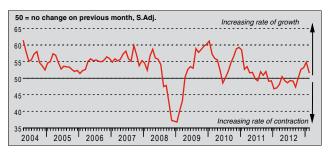


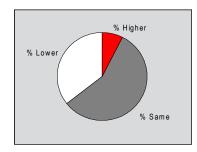


Suppliers' delivery times to manufacturing firms shortened in February, and for the first time in five months. After adjusting for seasonal factors, the rate of improvement was marginal, with a majority of panellists (nearly 90%) reporting no change. A number of respondents linked the overall shortening of delivery times to fewer new 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.

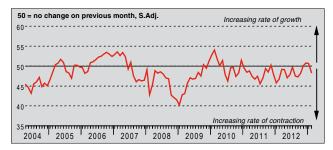


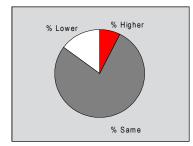


The seasonally adjusted Quantity of Purchases Index signalled an increased amount of purchasing activity in the Chinese manufacturing sector in February. Activity has now increased for five consecutive months. That said, the rate of growth eased from January and was modest overall, with just over 7% of survey respondents recording an increased amount of input buying. The rise in purchasing activity was generally associated with new order growth.

## Stocks of Purchases Index

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





Stocks of purchases at manufacturing firms fell in February, following a three-month period of accumulation. After adjusting for seasonality, the rate of reduction was modest, with just over 7% of panellists noting a decline in inventories. Anecdotal evidence suggested that stocks were depleted as a result of weaker purchasing activity at some firms.

## 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 420 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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