

HSBC China Manufacturing PMI™

Modest improvement in operating conditions

Key findings:

- Output expands at solid pace
- Solid growth of total new orders
- Stocks of finished goods increase for the first time in six months

Operating conditions in the Chinese manufacturing sector improved in March, with output and new orders both increasing at solid rates. New export orders also rose, albeit marginally. Increased production led to a solid rise in purchasing activity. Stocks of purchases declined modestly, and for the second month in a row. Input costs fell for the first time in six months, albeit slightly, while output charges were lowered for the first time in four months.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.6 in March, up from 50.4 in February, signalling a modest improvement. Operating conditions in the Chinese manufacturing sector have now improved for five consecutive months.

Production levels increased for the fifth month in a row in March. The rate of expansion accelerated from February to a solid pace, the second-fastest in two years. Behind the rise in output, total new orders rose solidly, and for the sixth month in a row. A number of respondents attributed growth to strengthened client demand. Meanwhile, new export orders also increased, albeit marginally.

Volumes of outstanding business declined for the second successive month in March. The rate of backlog depletion was broadly unchanged from February, and remained slight overall. Staffing levels, however, were relatively unchanged from the

previous month.

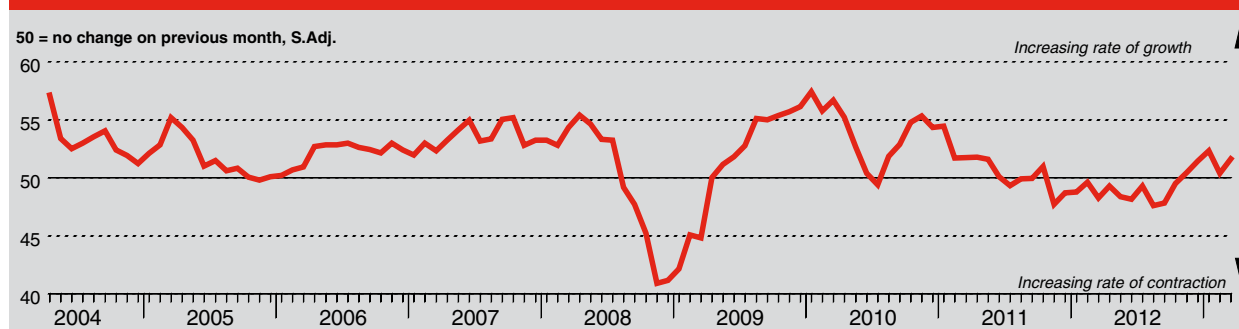
Suppliers' delivery times lengthened in March, following a slight improvement in February. That said, the rate at which vendor performance deteriorated was slight, with just over 6% of panellists recording longer lead times. A number of respondents linked the deterioration to increased orders placed at vendors.

Average input costs faced by manufacturers decreased, following a five-month period of inflation. However, the rate of reduction was marginal, with a number of respondents citing lower raw material costs. Output charges set by manufacturers also declined in March, and for the first time in since last November. The rate of discounting was modest, with approximately 10% of panellists lowering tariffs. A number of respondents attributed the fall to a combination of passing on lower input costs to clients and competitive market pressures.

Purchasing activity in the manufacturing sector rose for the sixth successive month. Growth quickened from February to a solid pace that was the third-strongest in two years. Meanwhile, stocks of purchases fell modestly for the second month in a row. Increased input buying and the depletion of stocks were both associated with increased production at plants.

Finally, inventories of finished goods increased for the first time in six months, albeit marginally. A number of respondents attributed the rise to increased production on the back of stronger client demand.

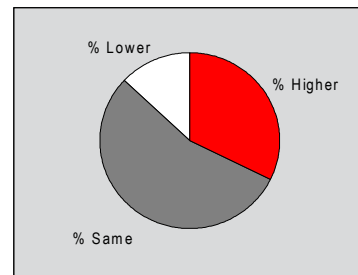
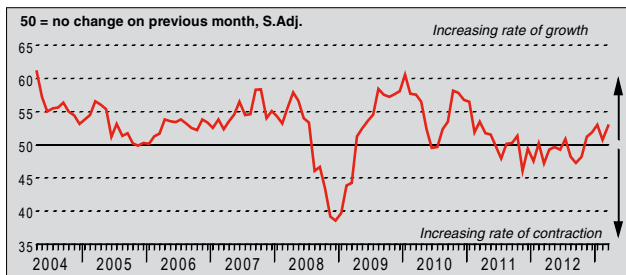
HSBC China Purchasing Managers' Index™ (PMI™)



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

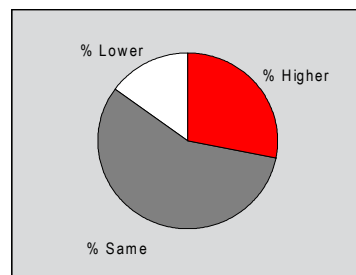
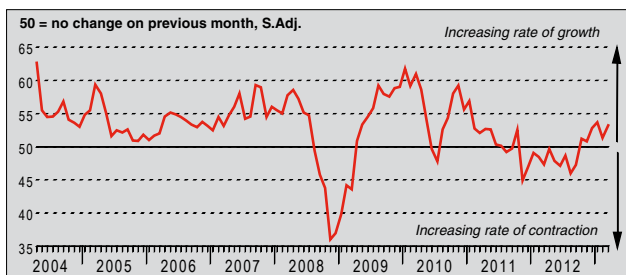
Q. Please compare your production/output this month with the situation one month ago.



Output in the Chinese manufacturing sector increased for the fifth consecutive month in March. After adjusting for seasonal factors, the Output Index signalled a solid rate of expansion, the second-fastest in two years. Anecdotal evidence suggested that increased production reflected strengthened client demand.

New Orders Index

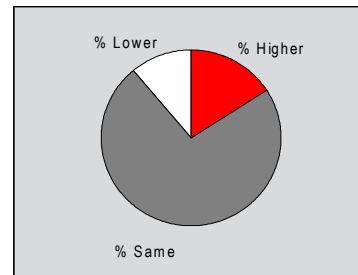
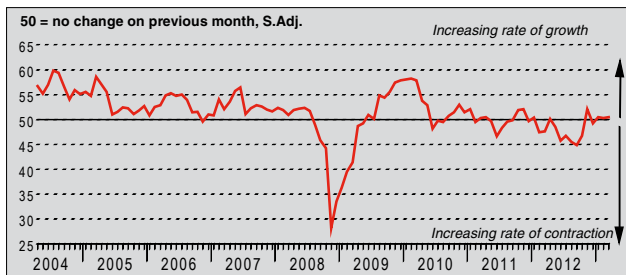
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



The seasonally adjusted New Orders Index signalled the sixth successive month of new order growth in March. The rate of growth accelerated from February to a solid rate, the second-strongest in 26 months. Stronger client demand, in both domestic and international markets, was linked to growth by a number of respondents.

New Export Orders Index

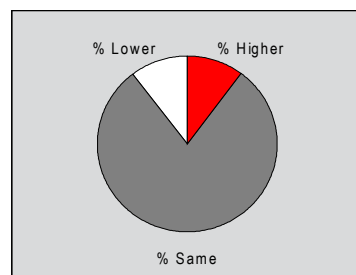
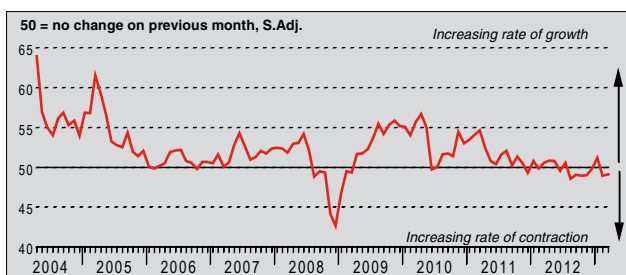
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders placed at manufacturing plants in China rose for the third month in a row in March. However, after adjusting for seasonal factors, growth was slight, and has been throughout the first quarter of 2013. A number of panellists linked the rise in new export orders to stronger demand from clients in Europe and the US.

Backlogs of Work Index

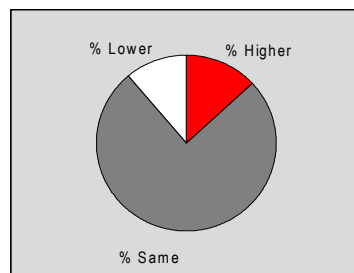
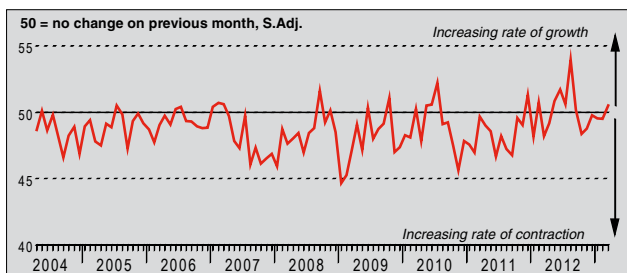
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of work-in-hand at Chinese manufacturing firms fell for the second month running in March. The rate of depletion was broadly similar to February, and was marginal overall, with the vast majority of panellists reporting unchanged volumes of outstanding business. Panellists attributed the lower level of work-in-hand to increased production capabilities at plants.

Stocks of Finished Goods Index

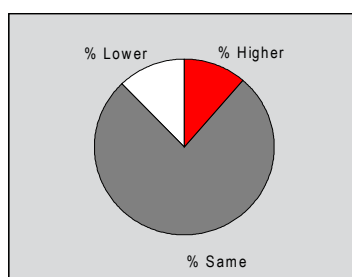
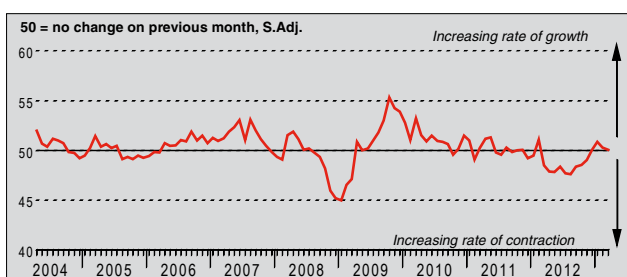
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods increased during March, following a five-month period of depletion. After adjusting for seasonality, the rate of accumulation was slight, with approximately 13% of survey respondents reporting an expansion. According to some panellists, the rise in stocks largely reflected increased production.

Employment Index

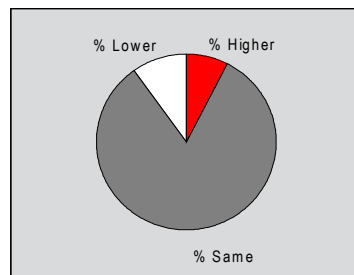
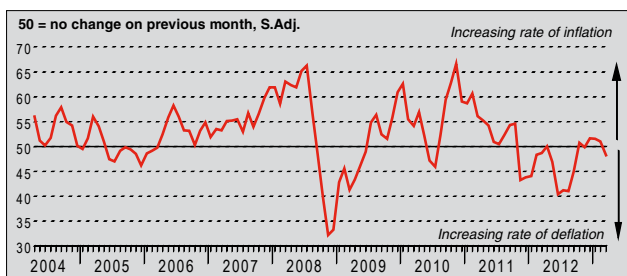
Q. Please compare the level of employment at your unit with the situation one month ago.



The seasonally adjusted Employment Index indicated that staffing levels in the Chinese manufacturing sector were broadly unchanged in March. The index posted fractionally above the 50.0 no-change mark for the fourth successive month, signalling that staff numbers have failed to expand beyond a marginal pace in the current sequence of job creation.

Output Prices Index

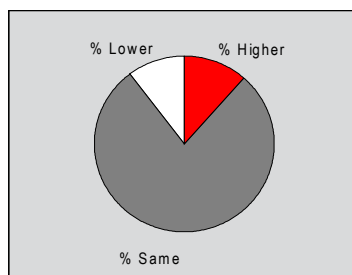
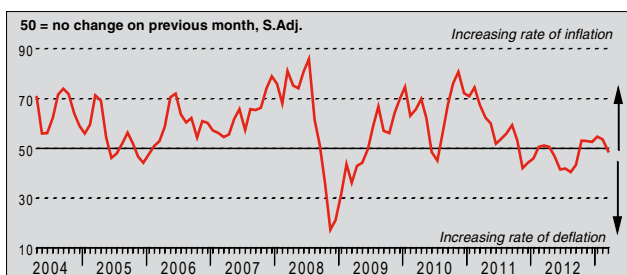
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output charges set by manufacturers were lowered in March, following a three-month period of inflation. The rate of discounting was modest, with around 10% of panellists recording lower average tariffs in the latest survey period. A number of respondents suggested that charges were reduced due to both the passing on of lower raw material costs to clients and competitive market pressures.

Input Prices Index

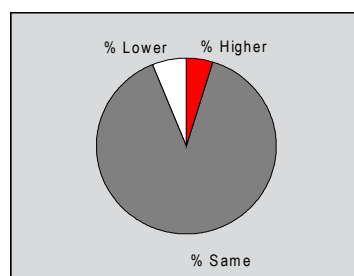
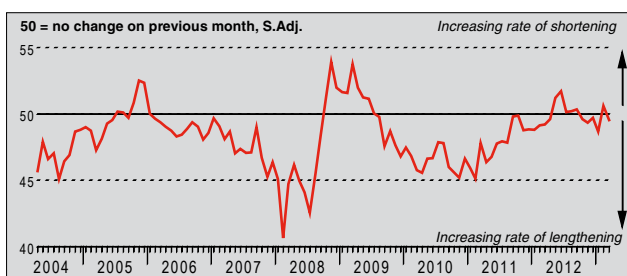
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices faced by manufacturers in China declined in March, and for the first time in six months. After adjusting for seasonality, the rate of reduction was slight. Anecdotal evidence linked deflation to reduced raw material costs; steel in particular was mentioned by some respondents as having fallen in price.

Suppliers' Delivery Times Index

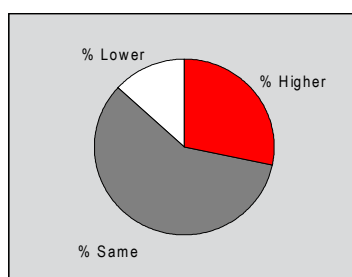
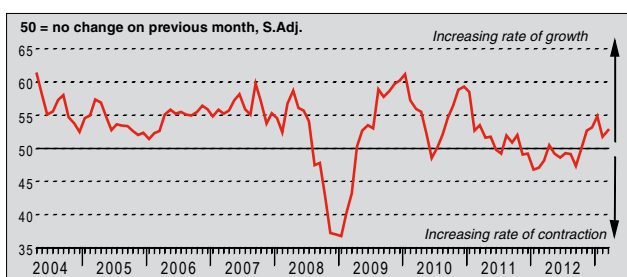
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance in the Chinese manufacturing sector deteriorated in March, following a slight improvement in February. That said, the rate of deterioration was only marginal, with just over 6% of panellists recording longer lead times. Some respondents mentioned that increased order volumes placed at vendors resulted in slower delivery times.

Quantity of Purchases Index

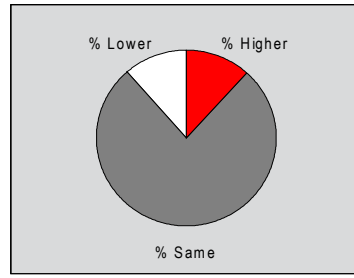
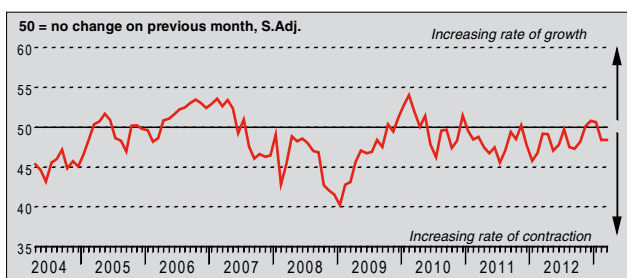
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Input buying at manufacturing firms increased for the sixth month in a row in March. The seasonally adjusted Quantity of Purchases Index indicated that growth accelerated from February to a solid pace, which was the third-strongest in two years. A number of panellists attributed increased input buying to higher output requirements.

Stocks of Purchases Index

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



Stocks of pre-production goods declined for the second successive month in March. The rate of reduction was unchanged from February, and was modest overall. Respondents suggested that the depletion of current inventories was to accommodate an expansion of output.

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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