

HSBC China Manufacturing PMI™

Marginal improvement in operating conditions during April

Key findings:

- Total new orders increase, but new export orders decline modestly
- Both input prices and output charges fall sharply
- Employment levels cut for the first time since last November

April data signalled only a slight improvement of operating conditions in the Chinese manufacturing, as output and new orders both expanded at weaker rates. New export orders contracted for the first time in 2013 so far.

On the price front, input prices decreased at the sharpest pace since last September, while output charges declined at the quickest rate for eight months. Job shedding was also recorded in the sector, the first time a net fall in payroll numbers has been recorded since last November.

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 50.4 in April, down from 51.6 in March, signalling a slight improvement in operating conditions. The PMI has now posted above the 50.0 no-change mark for six successive months.

Production at manufacturing plants in China increased for the sixth month in a row, though growth slowed to a marginal pace. New orders displayed a similar trend, with growth easing to a five-month low, while new export orders declined for the first time since last December. There were reports of softer demand from key American, Asian and European export markets.

Average input costs faced by goods producers fell for the second successive month. Furthermore, the decline was the sharpest

since last September, with more than 12% of respondents recording a fall in costs. Anecdotal evidence suggested markedly lower raw material costs drove deflation.

Output charges also decreased for the second month in a row, with the rate of discounting the fastest in eight months. A number of panellists mentioned cutting average tariffs in the hope of attracting more new business.

Backlogs of work increased, albeit fractionally, whilst employment levels decreased for the first time in five months. The rate of job shedding was marginal, however, with a vast majority of panellists (nearly 85%) noting no change to workforce numbers. The reduction in staff numbers was attributed to the non-replacement of employees that had resigned or retired.

Purchasing activity in the manufacturing sector rose for the seventh month running. Growth was modest, and the joint-weakest in the past six months. With little pressure on vendor capacity, suppliers' delivery times were broadly unchanged in April.

Finally, stocks of purchases fell for the third successive survey period. A number of respondents linked the fall to increased use of current inventories in production. However, post-production stocks increased at the quickest pace in eight months. Anecdotal evidence suggested higher inventories reflected excess output at some plants.

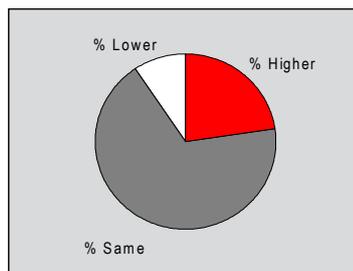
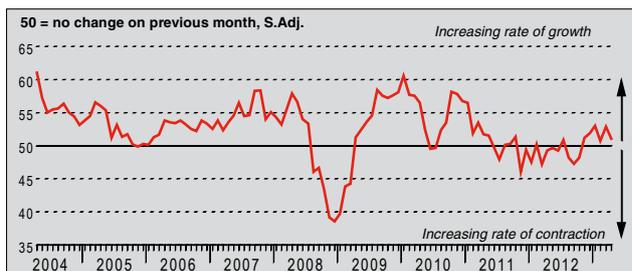
HSBC China Purchasing Managers' Index™ (PMI™)



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

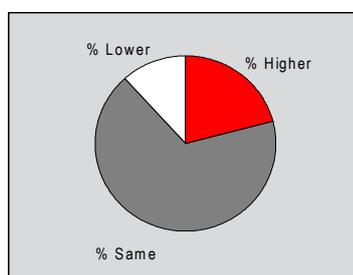
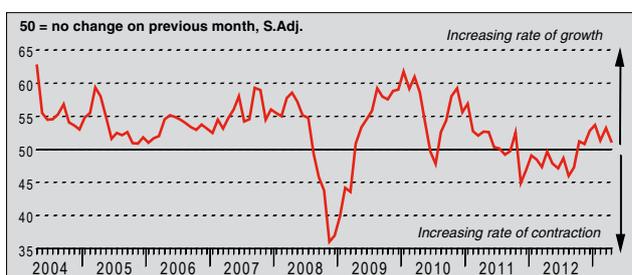
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index signalled an expansion of output in China's manufacturing sector for the sixth successive month in April. However, growth eased to a marginal pace that was the second-weakest in the current period of expansion. A number of panellists suggested an increased volume of new orders boosted output in the latest survey period.

New Orders Index

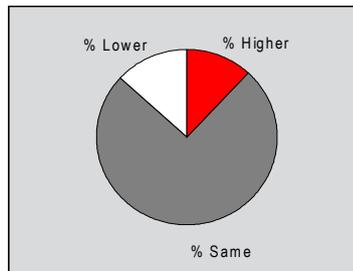
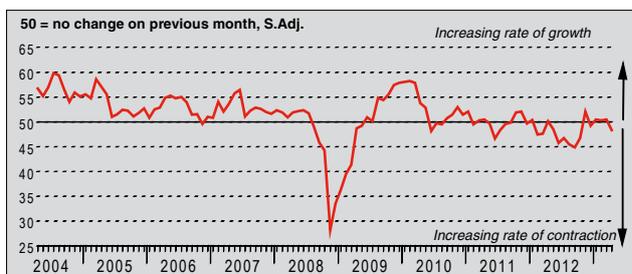
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



Total new orders placed at manufacturing firms increased for the seventh month in a row during April. As was the case with output, new order growth slowed from the previous month, with the seasonally adjusted New Orders Index posting a modest rate of expansion. Approximately 21% of respondents recorded an increased volume of new orders, compared to less than 12% that saw a reduction. Growth was generally associated with firm client demand.

New Export Orders Index

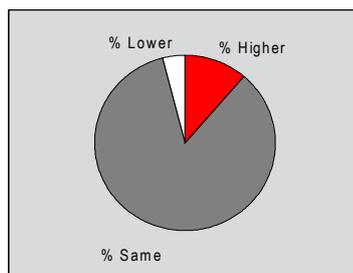
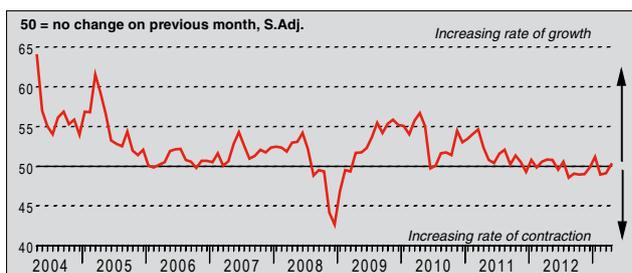
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Goods producers in China received a lower volume of new export orders in April. This was the first time new export orders declined in four survey periods. Though modest, the rate of reduction was the sharpest since last October. Some respondents suggested weaker client demand, particularly in the US, had led to the overall decline in new export orders.

Backlogs of Work Index

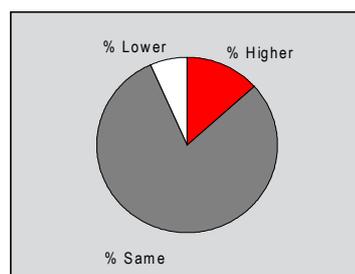
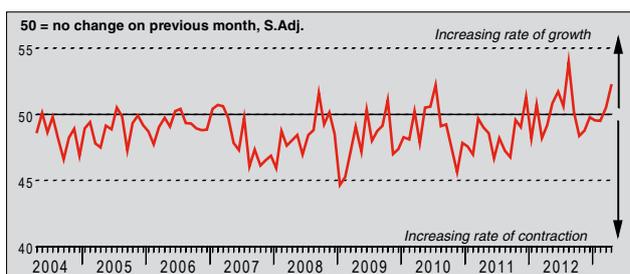
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business at manufacturing plants increased in April, following a slight reduction in March. Although the rate of accumulation was marginal overall, it was only the second time that the level of work-in-hand has increased in the past nine months. A number of panellists attributed the rise in backlogs to new order growth.

Stocks of Finished Goods Index

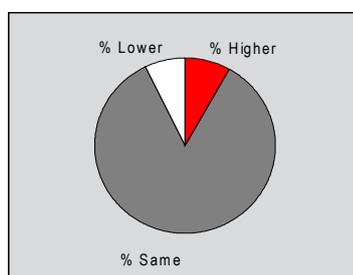
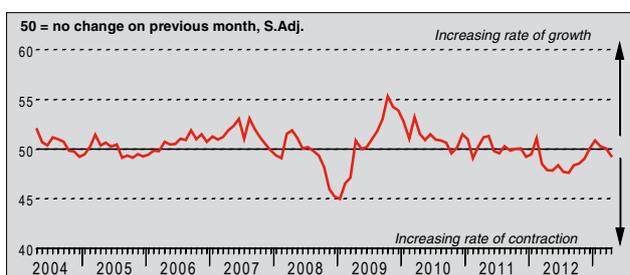
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held in China's manufacturing sector increased for the second successive month in April. The rate of expansion accelerated to a modest pace that was the quickest in eight months. More than 13% of survey respondents recorded a rise in inventories, with growth in some cases associated with excess output at plants.

Employment Index

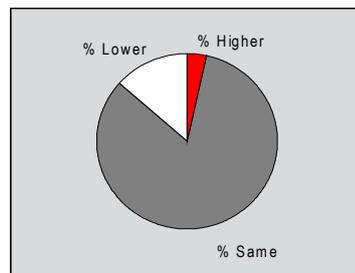
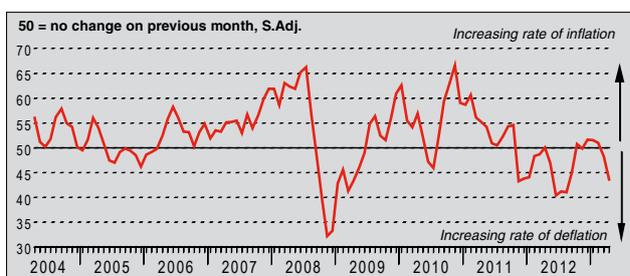
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment levels decreased at manufacturing firms during April, the first time a net fall has been registered in five months. That said, job shedding was only marginal, with a majority of respondents (nearly 85%) reporting no change in payroll numbers. Of those firms that recorded a fall in employment, some mentioned employee resignations and retirements had lowered workforce numbers.

Output Prices Index

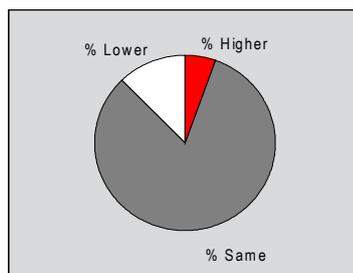
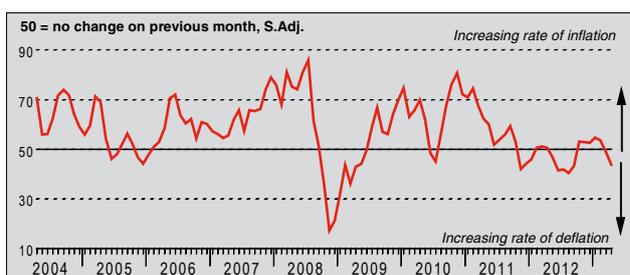
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers cut their average tariffs for the second consecutive month in April. Furthermore, the seasonally adjusted Output Prices Index signalled the sharpest rate of discounting since last August, with more than 13% of panellists reducing their output charges in the latest survey period. Anecdotal evidence suggested tariffs were cut in an effort to stimulate client demand. Such efforts were supported by lower input costs.

Input Prices Index

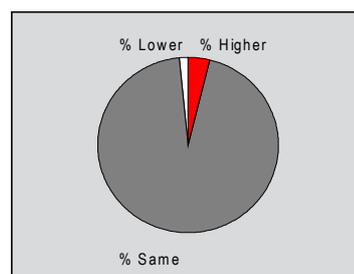
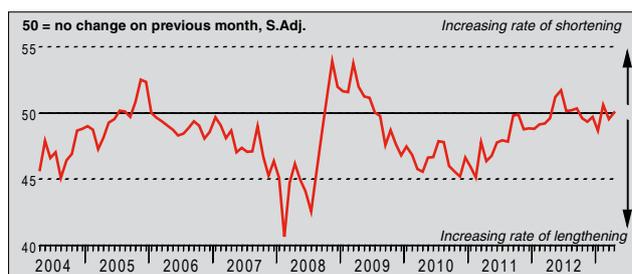
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by Chinese manufacturers fell sharply in April. This was the second successive month input costs have fallen, the decline in April was the quickest since last September. Over 12% of respondents recorded lower input prices in the latest survey period, a number of which linked deflation to a decline in raw material costs.

Suppliers' Delivery Times Index

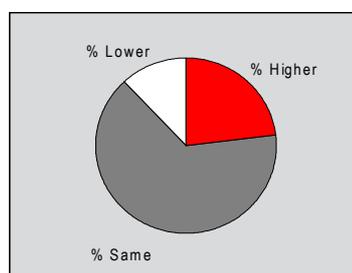
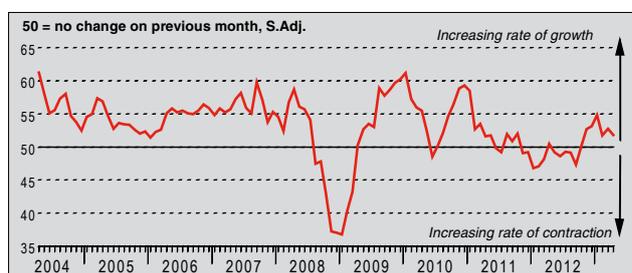
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Following on from a slight lengthening of delivery times in March, vendor performance was broadly unchanged in April, as signalled by the seasonally adjusting Suppliers' Delivery Times Index posting fractionally above the 50.0 no-change mark. . A vast majority of panellists (nearly 95%) saw no change in vendor performance during the latest survey period.

Quantity of Purchases Index

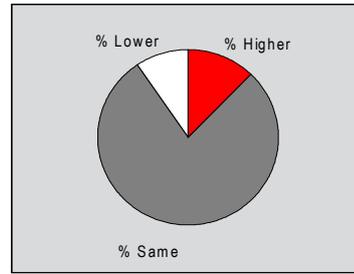
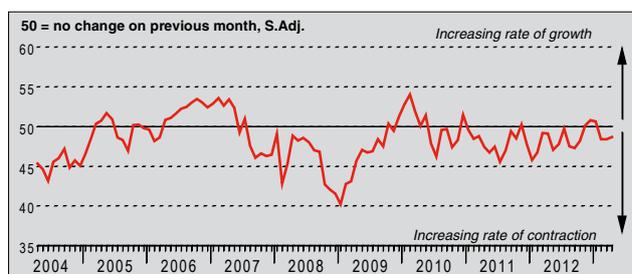
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the manufacturing sector increased for the seventh successive month in April. The rate of growth, however, eased since March and was modest overall. Moreover, it was the joint-weakest rate of expansion in the past six months. Some panellists mentioned purchasing activity has risen in response to higher production requirements.

Stocks of Purchases Index

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



Stocks of purchases at manufacturing plants decreased for the third month running in April. After adjusting for seasonal factors, the rate of depletion eased slightly from March, and was the weakest in nine months. Anecdotal evidence suggested inventories had fallen due to an increased utilisation of current stocks in production.

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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