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HSBC China Manufacturing PMI™

Operating conditions deteriorate at quickest pace since last September

Key findings:

- · Output contracts for first time since last October
- New export orders fall at the joint-fastest rate since March 2009
- · Job shedding intensified

Operating conditions in China's manufacturing sector deteriorated for the second month in a row during June. Furthermore, the rate of deterioration accelerated as output contracted for the first time since last October. Total new orders declined for the second month in a row, with new business from abroad decreasing at the joint-fastest pace since March 2009. Average input costs fell solidly, while average tariffs were cut sharply in an effort to attract new business.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index*TM (PMI^{TM}) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted at 48.2 in June, down from 49.2 in May, signalling a modest deterioration of business conditions. Operating conditions have now worsened for two successive months.

Chinese manufacturers signalled a first reduction of output for eight months in June. The rate of contraction was modest, and generally attributed to weaker client demand, as total new orders declined for the second month in a row. New business from abroad also fell in June, with the rate of contraction the fastest since last September, and the joint-sharpest in over four years. Anecdotal evidence suggested that reduced client demand, particularly from Europe and the US, led to fewer new export orders.

Fewer new orders enabled manufacturers to reduce the level of work-in-hand for the second month in a row, albeit marginally.

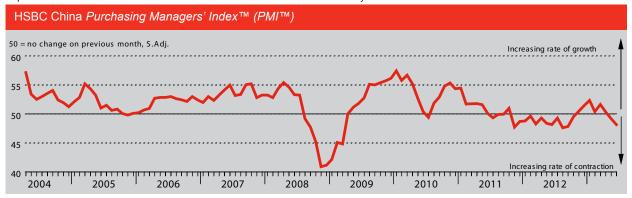
Staff numbers also decreased in June. The pace of job shedding was the fastest since last August, and joint-fastest since the depths of the financial crisis in early 2009. Anecdotal evidence implied that job cuts were due to a combination of employee resignations and weaker trends in output and new orders.

Purchasing activity decreased for the second consecutive month during June, and was generally associated with lower production requirements. That said, the rate of reduction was slight. Concurrently, stocks of purchases fell for the fifth month in a row, and at the quickest pace in the current sequence.

Average input costs faced by goods producers decreased for the fourth successive month and at a solid pace. According to anecdotal evidence, lower raw material costs drove the overall reduction.

Manufacturers passed on their savings to clients by cutting their average tariffs sharply over the month. A number of panellists also suggested that charges were discounted in an effort to boost client demand.

Finally, suppliers' delivery times shortened for the third month in a row, albeit slightly. Shorter lead times were linked to requests made by firms to vendors for faster deliveries.



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.

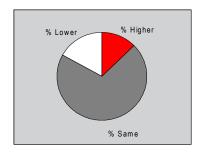




Output Index

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



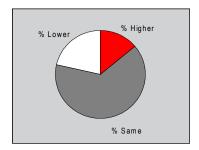


Chinese manufacturers signalled a reduced level of output for the first time since last October in June. The seasonally adjusted Output Index indicated a modest rate of contraction, with approximately 17% of survey respondents recording lower levels of production. According to a number of panellists, output contracted as a result of reduced order book volumes.

New Orders Index

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



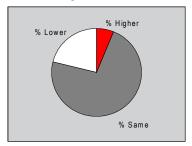


Total new orders placed at Chinese goods producers declined for the second successive month in June. Furthermore, the rate of reduction accelerated to a modest pace. Over 21% of panellists noted a fall in incoming new work, while approximately 14% recorded an increase. Anecdotal evidence suggested that a deterioration in global business conditions had adversely impacted 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.



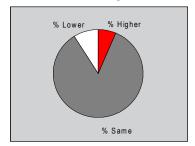


New business from abroad decreased in June, and at the quickest rate since September 2012 and the joint-fastest pace since March 2009. New export orders placed at manufacturers have now fallen for three months in a row. More than 21% of respondents reported a reduction in incoming new work from abroad, while just over 6% saw an increase. A number of panellists blamed weaker client demand for the drop in new export orders, particularly 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.



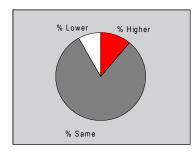


The volume of outstanding business at Chinese manufacturers fell for the second successive month in June. However, the rate of backlog depletion was similar to that recorded in May and only slight. Approximately 9% of respondents signalled a lower level of work-in-hand, compared with just over 6% that noted an increase. Fewer new orders were cited as the main reason for the reduction in backlogged work.

Stocks of Finished Goods Index

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



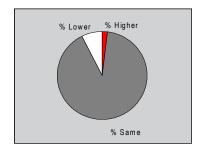


Stocks of post-production goods increased for the fourth month in a row in June. However, after adjusting for seasonal factors, the rate of accumulation eased to a marginal pace. Around 11% of respondents signalled a rise in inventories, compared with approximately 8% that noted a reduction. The rise in stocks was attributed by a number of panellists to unexpectedly fewer sales.

Employment Index

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



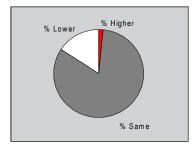


June data signalled the quickest rate of job shedding in the Chinese manufacturing sector since last August and the joint-quickest since March 2009. Employment in the sector has now decreased for three consecutive months, with nearly 8% of respondents recording a net reduction in staff numbers in the latest survey period. Anecdotal evidence implied that job cuts were due to a combination of employee resignations and weaker trends in output and new orders.

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.



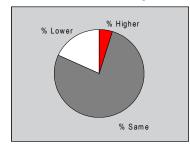


The seasonally adjusted Output Prices Index signalled that average tariffs set by goods producers were cut for the fourth consecutive month in June. The rate of reduction was slightly weaker than in May, but remained sharp overall. Furthermore, nearly 16% of panellists reduced their tariffs in the latest survey period. A number of firms suggested that output charges were lowered in an attempt to attract new business.

Input Prices Index

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



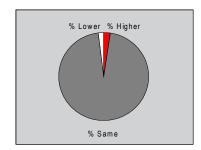


Average input costs faced by Chinese manufacturers fell for the fourth month in a row in June. Moreover, the rate of reduction was solid, despite easing slightly since May, with more than 18% of panellists reporting a decline in input costs. Lower raw material prices were mentioned by a number of respondents as the main reason for reduced operating costs.

Suppliers' Delivery Times Index

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



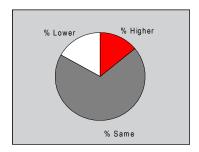


Vendor performance improved for the third successive month in June. However, the rate of improvement eased slightly since May and remained marginal overall. Furthermore, the vast majority of respondents (nearly 96%) saw no change to average lead times. There was some evidence that shorter average lead times were a result of vendors responding to requests made by manufacturers for faster deliveries.

Quantity of Purchases Index

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



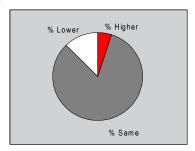


The seasonally adjusted Quantity of Purchases Index signalled that purchasing activity declined for the second month in a row during June. However, the rate of reduction was broadly unchanged from May and marginal overall. Approximately 17% of panellists saw a reduced level of input buying over the month, while around 14% noted an increase. A number of firms mentioned that demand for inputs weakened in response to fewer new orders.

Stocks of Purchases Index

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





Stocks of purchases declined for the fifth consecutive month in June. After adjusting for seasonality, the rate of depletion was modest, but the fastest in the current sequence. Furthermore, over 12% of respondents cut their inventory levels, compared with exactly 5% that recorded an increase. Anecdotal evidence suggested that stocks declined as a result of 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 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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