HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC China Manufacturing PMI™

Slower rise in manufacturing output

Key findings:

- Output growth eases to fractional pace
- New business from abroad increases for the first time in six months
- Purchasing activity rises for second successive month

September data signalled that operating conditions faced by Chinese manufacturers improved fractionally for the second month in a row. However, output growth eased to a marginal pace, and order books expanded only slightly for the second successive month. However, new export orders increased, ending a five-month sequence of reduction. Purchasing activity rose modestly on the back of new order growth, but employment levels declined, and for the sixth month in a row.

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 at 50.2 in September, broadly unchanged from 50.1 in August, and signalled that operating conditions improved fractionally since the previous month. Though only slight, this was a positive development, with the PMI signalling a further improvement upon July's 11-month low.

Output across the Chinese manufacturing sector expanded for the second successive month in September, though the rate of growth slowed to a fractional pace. Furthermore, growth of new work was unchanged from the previous month and only slight. Nonetheless, new business from overseas increased for the first time in six months (albeit marginally), with panellists citing stronger demand from client bases in Europe and the US.

An increased amount of new work led to a further modest increase in purchasing activity at Chinese manufacturers. In contrast, stocks of inputs fell for the eighth month in a row, albeit at the weakest pace in the current sequence of reduction.

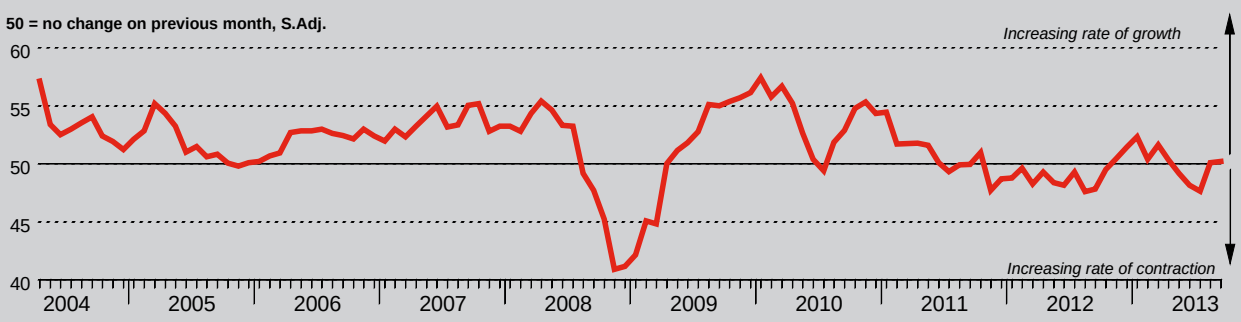
Stocks of finished goods declined for the third successive month, though only slightly. According to a number of surveyed firms, an increased amount of new business led to the depletion of inventories.

Greater volumes of incoming new work led to a modest accumulation of work-in-hand. Backlogs of work have now increased for two successive months. Despite expansions of both output and new work, employment levels continued to decline and at a similar pace to that seen in August.

Stronger demand for production materials led to a renewed deterioration of vendor performance. Though modest, it was the strongest lengthening of lead times since January.

Average production costs increased for the second consecutive month in China's manufacturing sector. The rate of input price inflation was marked, with nearly 14% of respondents noting increased cost burdens. Higher prices for raw materials such as steel and oil were said to have driven inflation. Firms chose to pass on their higher input prices to clients by raising their output charges for the second month in a row. However, the rate of increase was below-trend and only modest.

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.

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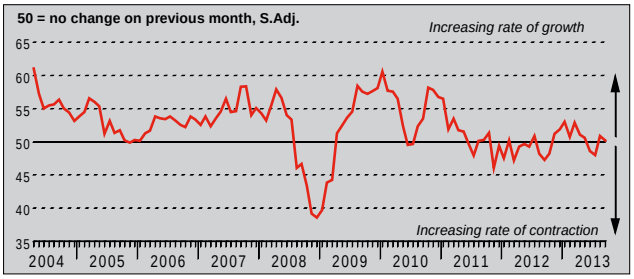
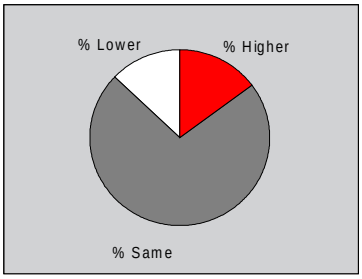
Output Index

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

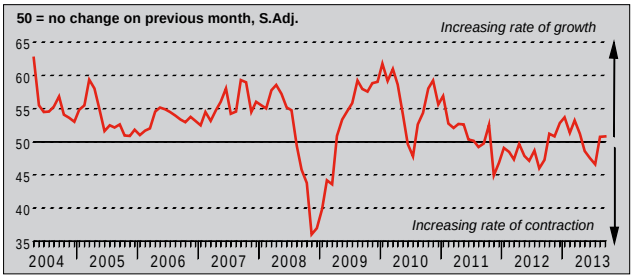


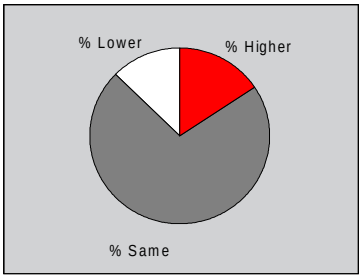


Output across China's manufacturing sector increased for the second successive month in September. After adjusting for seasonality, however, the rate of growth eased from the previous month and was only fractional. While some panellists reported that strengthened client demand boosted output, other firms indicated that unstable economic conditions led to a contraction.

New Orders Index

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

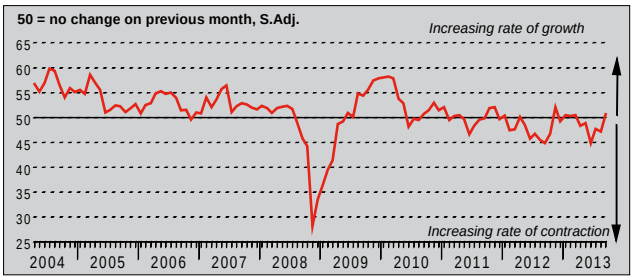


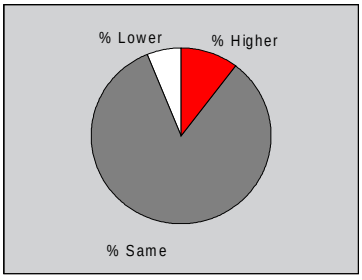


The seasonally adjusted New Orders Index posted above the 50.0 no-change mark for the second month in a row, signalling a further expansion of new order books in September. That said, the rate of growth was unchanged from August and only marginal. Nonetheless, a number of surveyed firms suggested that stronger client demand stemmed from improving market conditions.

New Export Orders Index

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

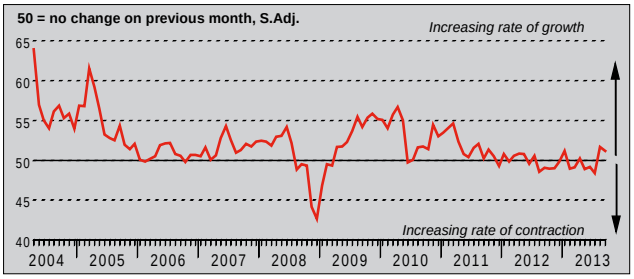


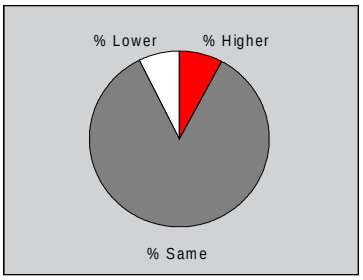


New business from abroad increased for the first time in six months during September. After adjusting for seasonal variation, the rate of expansion was slight, with approximately one-in-ten respondents noting greater volumes of new export orders (compared with 6% that reported a reduction). Anecdotal evidence cited stronger client demand, particularly from 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.





Volumes of outstanding business at Chinese manufacturers increased for the second consecutive month in September. The rate of accumulation eased slightly from the previous month and remained modest overall, with around 8% of panellists recording a higher level of work-in-hand. Growth of outstanding work was largely associated with increased new order volumes.

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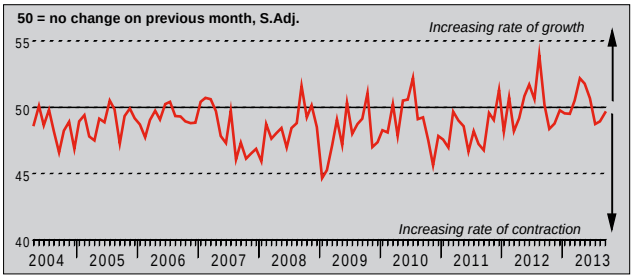
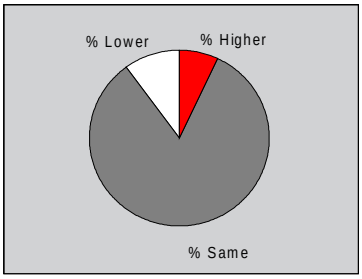
Stocks of Finished Goods Index

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

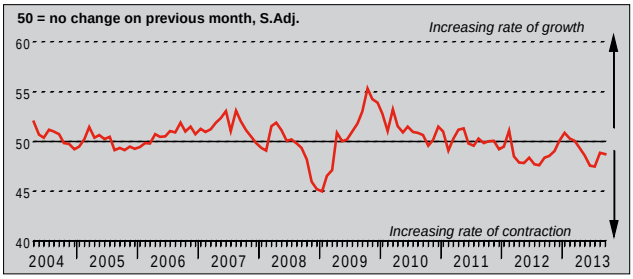


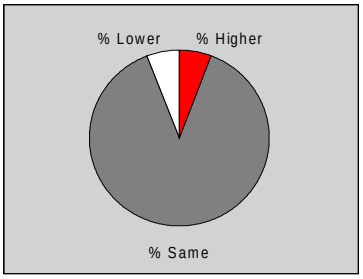


September data signalled that stocks of finished goods declined for the third month in a row. That said, the rate of reduction was the weakest in the current sequence and only fractional. Approximately 10% of surveyed firms noted stock depletion in the latest survey period (while exactly 7% saw an expansion), with a number of companies suggesting that inventories declined as new business exceeded output.

Employment Index

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

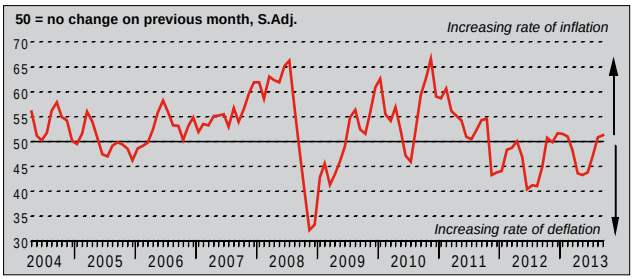


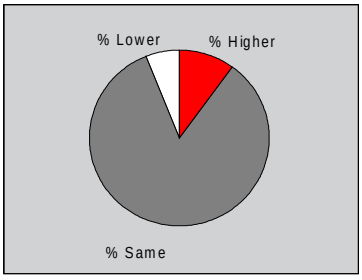


Latest data signalled further job shedding across China's manufacturing sector during September, extending the current trend to six months. However, the rate at which payrolls were cut was broadly unchanged from August and modest. Anecdotal evidence linked lower workforce numbers to employee resignations and companies down-sizing.

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.

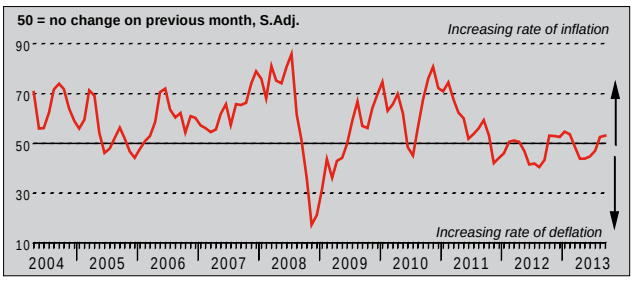


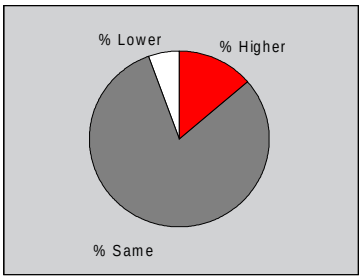


Average output charges in China's manufacturing economy increased for the second successive month in September. After adjusting for seasonal factors, the rate of increase quickened slightly, with exactly one-in-ten panellists raising their tariffs since the previous month. Higher production costs were said to have increased output charges, with firms passing on their higher cost burdens to clients.

Input Prices Index

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

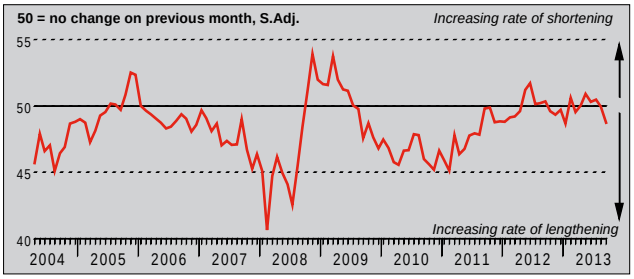


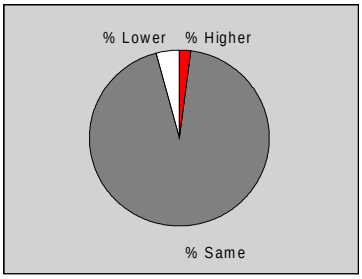


Latest data signalled that average input costs faced by Chinese goods producers rose for the second month running. Once adjusted for seasonality, the rate of input price inflation accelerated since August and was marked. Nearly 14% of surveyed firms noted increased cost burdens (compared with less than 6% that reported a reduction), with a number of firms mentioning higher prices for raw materials such as steel and oil.

Suppliers' Delivery Times Index

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

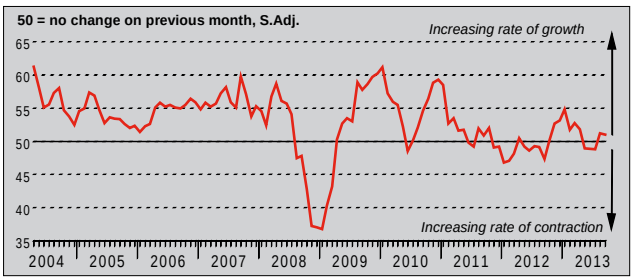


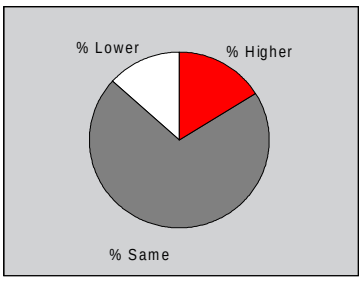


The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change mark in September, signalling the first deterioration of vendor performance since March. Though modest, the rate at which times lengthened was the fastest since January, with more than 4% of panellists noting longer average lead times. A number of respondents reported that delivery times slowed due to insufficient stock levels at vendors.

Quantity of Purchases Index

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

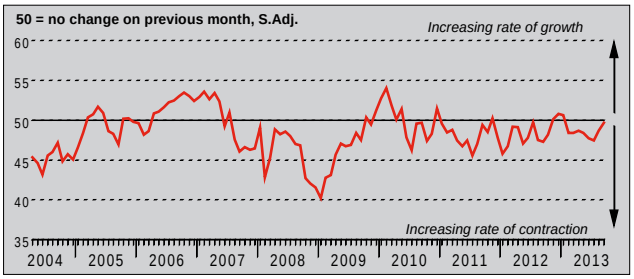


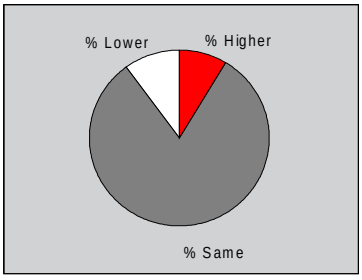


Manufacturers in China increased their input buying for the second month in a row during September. After adjusting for seasonal factors, the rate of expansion was broadly unchanged from the previous month and modest. Growth was largely attributed to increased new order volumes, which led to higher production requirements.

Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index signalled a further depletion of inventories in September. However, the rate of decline was the weakest in the current eight-month sequence and only fractional. Anecdotal evidence suggested relatively subdued client demand led some firms to reduce their stocks of raw materials, while others raised theirs 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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