HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

Embargoed until: 09:45 (BEIJING), 1 November 2013

HSBC China Manufacturing PMI™

Operating conditions improve at the strongest rate in seven months

Key findings:

- Output growth picks up to six-month high
- Both new orders and new export orders increase at faster rates
- Fastest accumulation of work-in-hand since March 2011

Business conditions in China's manufacturing sector improved at the fastest rate since March in October. Production levels increased at the quickest pace in six months, while demand conditions also continued to improve. Both total new orders and new export orders rose at faster rates, with growth of new work from abroad at an 11-month high. Consequently, backlogs of work increased at the strongest rate since March 2011. Manufacturers signalled an expansion of payroll numbers and input buying over the month, as part of efforts to increase productive capacity.

After adjusting for seasonal factors, including the recent Golden Week holiday, 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 50.9 in October, up from 50.2 in September. Though only slight, it was the strongest improvement of operating conditions in China's manufacturing sector in seven months.

Output at manufacturing plants in China increased for the third month running in October, and at the quickest pace since April. The expansion of output was accommodated by stronger client demand both at home and abroad, with new orders and new export orders rising at faster rates in October. Furthermore, it was the strongest expansion of new business from abroad in nearly a year, with a number of panellists citing greater demand in the US in particular.

The level of outstanding business at Chinese manufacturers increased solidly in October, and was generally associated with new order growth. Moreover, it was the strongest accumulation of work-in-hand in 31 months. October data signalled a renewed expansion of payroll numbers, as some firms planned to expand output. However, the rate of job creation was only slight.

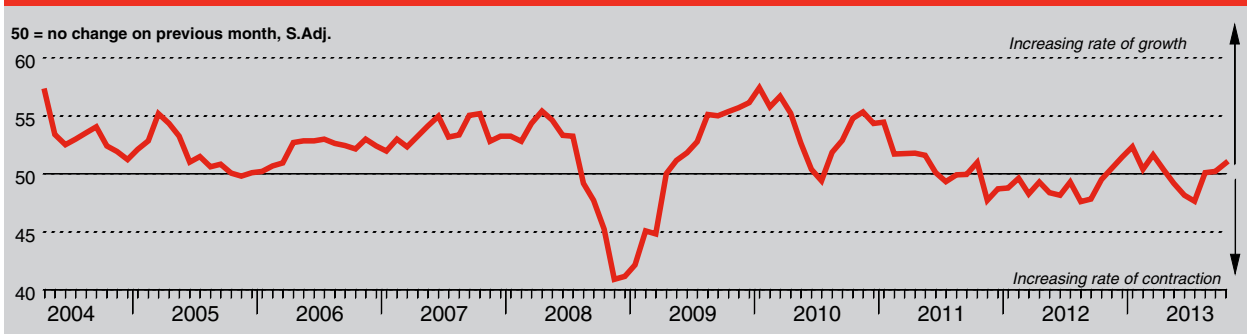
Increased production requirements led to higher levels of purchasing activity. Furthermore, the rate of increase accelerated since September to a solid pace, with 17% of surveyed firms noting more input buying. Concurrently, stocks of purchases rose for the first time since January, albeit marginally.

Stronger demand for inputs led to a deterioration of vendor performance for the second successive month in October. That said, the rate at which delivery times lengthened was only slight.

Average production costs faced by Chinese manufacturers increased for the third month in a row during October. However, the rate of input price inflation eased slightly since the previous month. A number of survey respondents attributed inflation to higher raw material costs. Meanwhile, output charges were raised for the third successive month, though the rate of increase eased to a marginal pace.

Finally, stocks of finished goods increased for the first time in four months, albeit slightly.

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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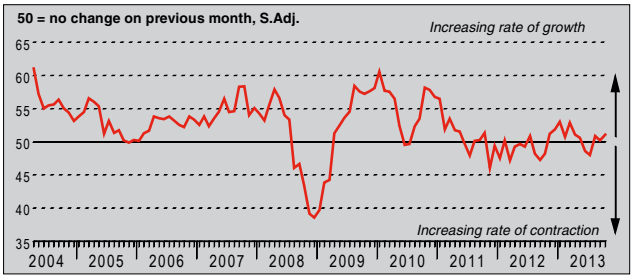
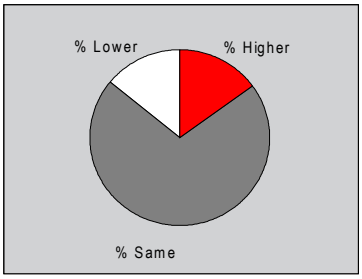
Output Index

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

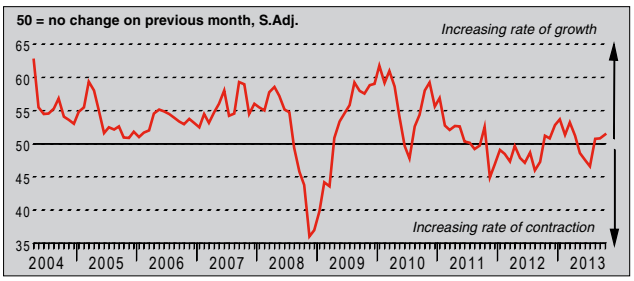


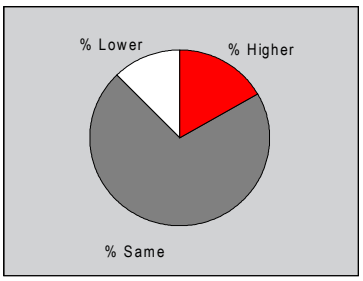


The seasonally adjusted Output Index signalled a further expansion of output at Chinese manufacturers in October. The rate of growth, though slight, was the fastest in six months, with exactly 15% of survey respondents noting higher increased production levels. According to anecdotal evidence, firms raised productive volumes in response to 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.

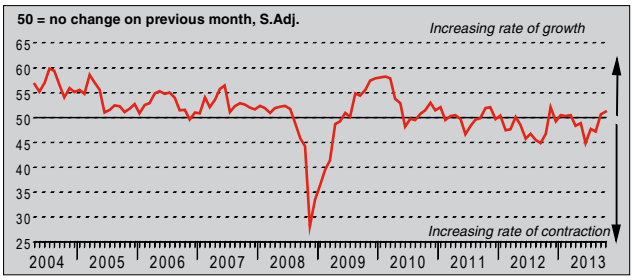


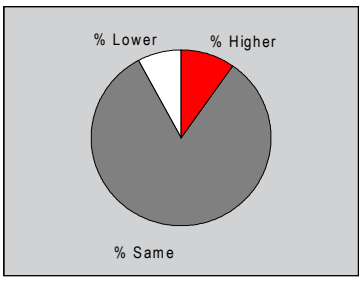


Chinese manufacturers signalled an increased amount of new business for the third successive month in October. After adjusting for seasonality, the rate of growth accelerated since September to the fastest since March. Nearly 17% of surveyed firms reported an expansion of new order books (while approximately 12% saw a reduction), with a number of panellists attributing growth to stronger client demand at both home and abroad.

New Export Orders Index

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

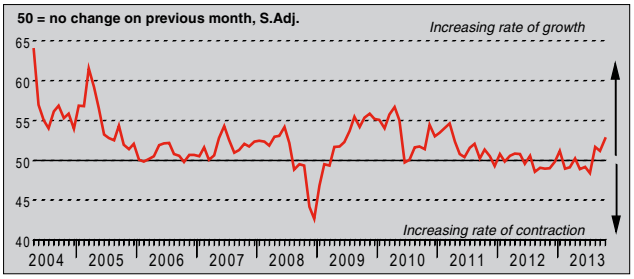


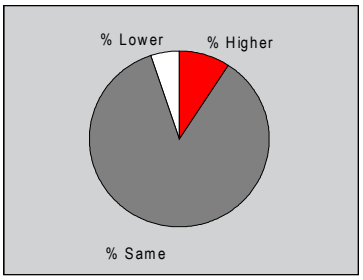


New export orders placed at Chinese manufacturing plants increased for the second month in a row in October. The seasonally adjusted New Export Orders Index signalled a modest rate of growth that was the quickest since last November. Approximately one-in-ten panellists reported an increased amount of new business from abroad, with stronger demand in the US noted by a number of firms.

Backlogs of Work Index

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





Backlogs of work at Chinese goods producers increased for the third consecutive month in October. After adjusting for seasonal variation, the rate of expansion accelerated to a solid pace. Furthermore, it was the fastest accumulation of work-in-hand since March 2011. Around 9% of respondents recorded an increased amount of outstanding business, which was largely attributed to new order growth.

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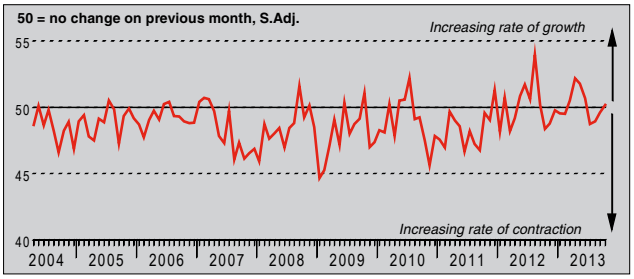
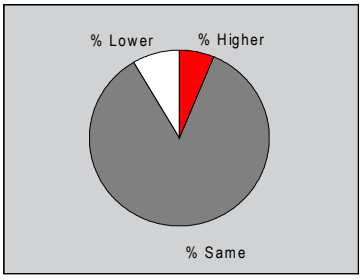
Stocks of Finished Goods Index

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

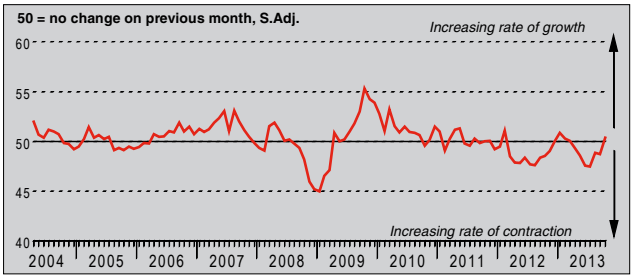


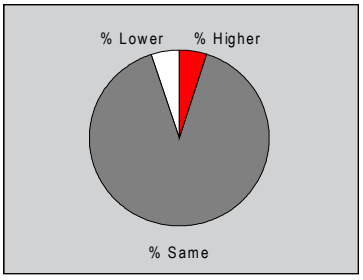


The seasonally adjusted Stocks of Finished Goods Index posted above the 50.0 no-change mark for the first time in four months in October, signalling a renewed expansion of inventories. That said, the rate of growth was fractional. Anecdotal evidence suggested that increased output at some firms led to growth of post-production stocks.

Employment Index

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

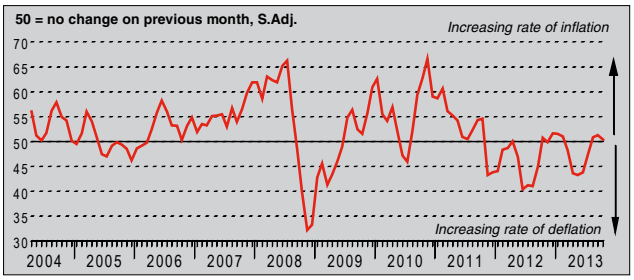


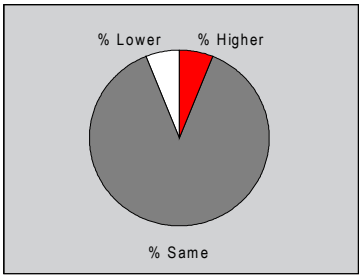


The seasonally adjusted Employment Index signalled a renewed expansion of payroll numbers at Chinese manufacturing firms during October. However, the rate of job creation was slight. Increased production requirements were linked to job creation in the latest survey period, which in turn stemmed from increased levels of backlogged work and new order growth.

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.

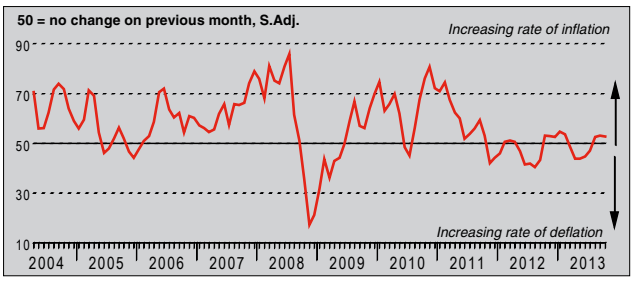


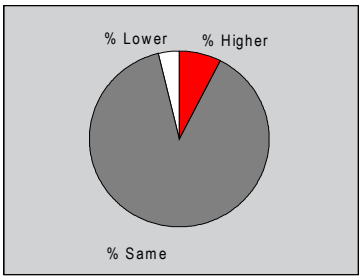


Average output prices in China's manufacturing sector increased for the third month running in October. However, the rate of output price inflation eased since September and was only slight. Furthermore, it was the weakest increase in selling prices in three months. A number of survey respondents attributed inflation to greater cost burdens, while other firms cut their selling prices 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.

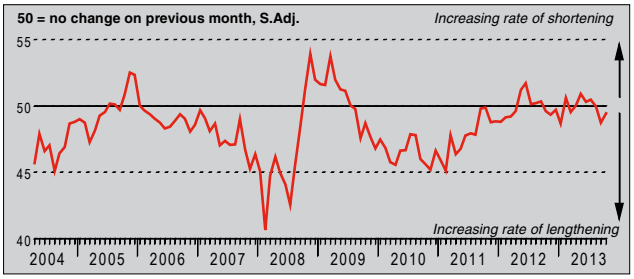


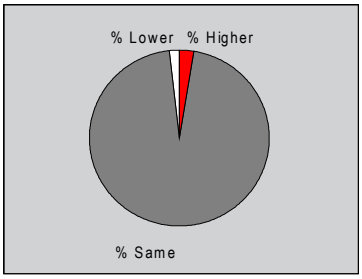


Production costs faced by Chinese manufacturers increased in October, extending the current trend to three months. After adjusting for seasonality, the rate of input price inflation eased from September's seven-month high, but remained solid overall. Increased raw material costs were cited as the key driver of inflation in the latest survey period.

Suppliers' Delivery Times Index

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

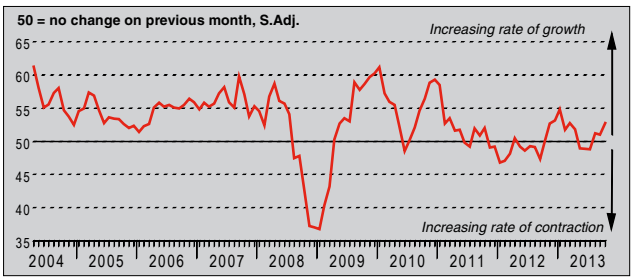


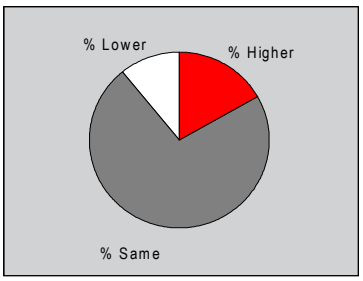


Vendor performance in China's manufacturing sector deteriorated for the second successive month in October. After adjusting for seasonality, however, the rate of deterioration eased since September and was only marginal. Nonetheless, it was only the second time in seven months that delivery times had lengthened, with a number of panellists attributing slower deliveries to greater demand for inputs.

Quantity of Purchases Index

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

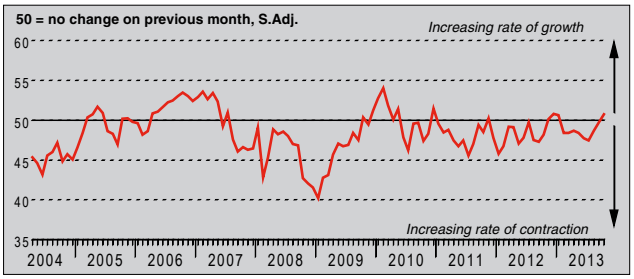


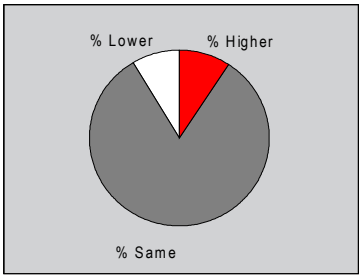


Firms operating in China's manufacturing sector increased their purchasing activity for the third successive month in October. Furthermore, the rate of growth accelerated to a solid pace that was the quickest since March. Approximately 17% of surveyed firms noted an increased amount of input buying (compared with 11% that reported a decline), with a number of companies linking the rise to higher production requirements stemming from new order growth.

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 renewed expansion of inventories in China's manufacturing sector in October. That said, the rate of accumulation was only slight. According to anecdotal evidence, inventories increased as firms undertook a greater amount of purchasing activity as part of plans to expand productive capacity.

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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