HSBC Purchasing Managers' Index™ Press Release

compiled by markit

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HSBC China Manufacturing PMI™

Sharper declines in output, new business and export orders in June

Summary

China's goods producers reported an eighth successive month-on-month deterioration in operating conditions during June, as output, incoming new orders and employment continued to decrease. After adjusting for seasonal factors, the HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – inched lower from 48.4 to 48.2 in June, a level indicative of a modest pace of deterioration in business conditions. For the second quarter as a whole, the index averaged its lowest quarterly value since Q1 2009.

A lack of demand was behind the latest deterioration in operating conditions, with total and foreign new orders falling at accelerated rates in June. New export orders placed at goods producers dropped at the steepest rate in over three years. North America and Europe were both cited as sources of new order book weakness. Meanwhile, the month-on-month fall in overall new orders (exports plus domestic) was the strongest in 2012 to date. The drop in total new orders led to a further decline in manufacturing output, extending the current period of contraction to four months. However, the rate of decline in factory output remained marginal.

Manufacturing production decreased at a far weaker rate than new orders, which resulted in the second-largest increase in finished goods inventories since data were first compiled in April 2004.

The size of China's manufacturing workforce contracted for the fourth month running in June, albeit at only a modest rate that was the weakest in three months. Job shedding in part reflected spare capacity in the sector, which was highlighted by a slight decline in backlogs of work. The index measuring trends in work outstanding rarely dips below the 50.0 no change mark, and the latest reading was the lowest in 2012 so far.

A further shortening of vendor lead times showed little pressure being placed on supplier capacity in June, as input buying by goods producers decreased for a second successive month. Although modest, the rate of improvement in vendor performance was the greatest in over three years. Companies continued to express a preference towards stock depletion, with holdings of pre-production goods falling for the seventh month running in June.

China's goods producers reported a sharp decline in average costs during June, with the pace of reduction accelerating to the sharpest since March 2009. Reduced purchasing costs in part reflect falling global prices for a variety of commodities and crude oil. Companies reduced their factory gate charges as a result, with the extent of the decline similar to that seen for average costs. Indeed, the pace of output price discounting was the steepest in 42 months. Some manufacturers reported that competitive pressures had also contributed to the latest drop in selling prices.

Comment

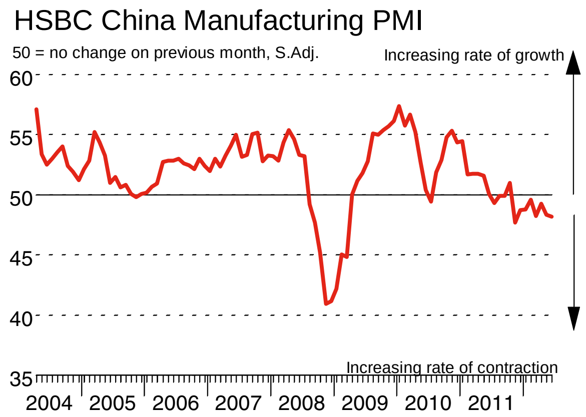
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"It is all about growth and employment. As external demand has weakened and domestic demand hasn't shown a meaningful improvement in response to earlier easing measures, growth is likely to be on track for further slowdown, hence weighing on the jobs market. But as inflation eases sharply, Beijing has plenty of room and policy ammunition to avoid a hard landing. We expect more decisive easing efforts to come through in the coming months."

Key points

- New orders fall to greatest extent in seven months, as export orders slump
- Factory output declines marginally in comparison; stocks of finished goods rise
- Input costs and output charges down at sharpest rates in 39- and 42-months respectively

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC China Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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