HSBC Purchasing Managers' Index[™] Press Release

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HSBC China Manufacturing PMI™

Operating conditions deteriorate at faster pace in July

Summary

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 an eleven-month low of 47.7 in July, down from 48.2 in June, therefore signalling a deterioration of business conditions for the third consecutive month.

Production levels at Chinese manufacturers declined for the second month in a row in July. The rate of contraction quickened slightly, but remained modest overall. Lower output was driven by a further decline in new business, in both domestic and international markets, with the net fall in total new orders the sharpest for 11 months. New export orders, in contrast. fell at a reduced pace, though have now declined for four months in a row.

Anecdotal evidence indicated deteriorating market conditions, both domestically and internationally, had led to reduced client demand. Exporters reported that new sales to Europe, South East Asia and the United States were all lower compared to June levels.

Payroll numbers were cut for the fourth successive month in July, with the rate of job shedding the quickest since March 2009. According to some respondents, the reduction was due to a combination of employee resignations and company downsizing. Despite further job losses, backlogs of work fell modestly over the month, with a number of firms citing spare capacity at their plants.

Manufacturers reduced their input buying for the third month running in July, albeit at a modest pace. As a result, suppliers' delivery times marginally improved for the fourth month in a row. Stocks of purchases also fell since June, with a number of respondents mentioning that stocks were depleted in line with reduced order book volumes and associated lower production requirements.

Finally, on the price front, cost pressures continued to ease. Average input costs fell at the slowest pace in four months but still at a marked pace overall as imported goods were reported to be lower in price. Reduced operating costs were passed on to clients through a fall in output charges. Average tariffs have now decreased for five months in a row, although the pace of discounting eased since June and was the slowest recorded since March.

Comment

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

"With weak demand from both domestic and external markets, the cooling manufacturing sector continued to weigh on employment. Yet this, plus the recent weaker data, has prompted Beijing to introduce more finetuning measures, from tax breaks for small companies to increased spending on public housing, railway, energy saving and IT infrastructure areas. These targeted measures should boost confidence and reduce downside risks to growth."

Key points

- Output contracts for the second month in a row as firms signal a further reduction in new orders
- Market demand reported to be lower both at home and abroad
- Quickest reduction in workforce numbers since March 2009

Historical Overview

HSBC China Manufacturing PMI



2004 2005 2006 2007 2008 2009 2010 2011 2012 2013

Sources: Markit, HSBC.

The August HSBC Flash China Manufacturing PMI is due for release 22nd August 2013.

For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page.m vc/DiaryofReleaseDates





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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 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. 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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