

HSBC China Manufacturing PMI™

Business conditions continue to deteriorate in April

Summary

Chinese manufacturers signalled a further deterioration in overall operating conditions during April. Both output and total new work declined over the month, albeit at weaker rates than those recorded in March. Fewer new orders led firms to cut their staffing levels at a modest pace, while purchasing activity fell for the third successive month. Meanwhile, both input costs and output charges fell markedly.

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 48.1 in April, down fractionally from the earlier flash reading of 48.3, and up from 48.0 in March. This signalled the fourth successive monthly deterioration in the health of the sector.

Production at Chinese manufacturers fell for the third consecutive month in April, though at a weaker pace than in March. Panellists generally attributed the latest reduction of output to fewer new orders, which decreased at a marked rate in April. Data suggested that sluggish domestic demand predominantly led to the fall in total new business, as new export orders declined only slightly. Weaker client demand was attributed by a number of survey respondents to deteriorating market conditions.

Goods producers in China cut their staffing levels for the sixth month running in April, amid reports of company down-sizing policies which stemmed from lower production requirements. Moreover, the rate of job shedding accelerated from the previous month. Despite reduced workforce numbers, volumes of unfinished work fell for the third successive month in April. That said, the rate of backlog depletion was marginal.

Fewer new orders led manufacturers to cut back on their purchasing activity in April. However, the pace of reduction was only slight, having eased from that seen in March. Firms also depleted their stocks of purchases at a marked rate in April, reflective of efforts to lower inventories in line with weaker client demand.

Average input costs faced by Chinese goods producers fell for the fourth consecutive month in April. Despite easing from March, the rate of reduction was solid overall. Factory gate prices also fell during April, and at a solid pace. Anecdotal evidence suggested that charges were cut to boost client demand.

Comment

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

“The final reading of the HSBC China Manufacturing PMI stabilised at 48.1 in April, up slightly from 48.0 in March, and revised down from an earlier flash reading of 48.3. The latest data implied that domestic demand contracted at a slower pace, but remained sluggish. Meanwhile, both the new export orders and employment sub-indices contracted, and were revised down from the earlier flash readings. These indicate that the manufacturing sector, and the broader economy as a whole, continues to lose momentum. Over the past few days, Beijing has introduced more reform measures which could support growth by inducing more private sector investment. We think bolder actions will be required to ensure the economy regains its momentum.”

Key points

- Output and new orders contract at slower rates
- Staff numbers are cut for the sixth month in a row
- Solid reduction in both input and output prices

Historical Overview

HSBC China Manufacturing PMI



Sources: Markit, HSBC.

The May HSBC Flash China Manufacturing PMI is due for release 22nd May 2014.

For all forthcoming PMI release dates please see <http://www.markiteconomics.com/Survey/Page.mvc/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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