HSBC Purchasing Managers' Index™ Press Release

compiled by markit

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HSBC China Manufacturing PMI™

Renewed deterioration of operating conditions in January

Summary

January data signalled a deterioration of operating conditions in China's manufacturing sector for the first time in six months. The deterioration of the headline PMI largely reflected weaker expansions of both output and new business over the month. Firms also cut their staffing levels at the quickest pace since March 2009. On the price front, average production costs declined at a marked rate, while firms lowered their output charges for the second successive month.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* posted at 49.5 in January, down fractionally from the earlier flash reading of 49.6, and down from 50.5 in December. This signalled the first deterioration of operating conditions in China's manufacturing sector since July.

Production levels continued to increase in January, extending the current sequence of expansion to six months. However, the rate of growth eased to a marginal pace. While greater volumes of new work boosted production at some firms, others reduced their output amid reports of relatively subdued client demand that stemmed from fragile economic conditions. Consequently, total new business was relatively unchanged from the previous month, following a five-month sequence of growth. Meanwhile, new export orders declined for the second month running in January, with surveyed firms mentioning weaker demand in a number of key export markets.

Employment levels at Chinese manufacturers fell for the third consecutive month in January. Moreover, it was the quickest reduction of payroll numbers since March 2009. Job shedding was generally attributed by panellists to the non-replacement of voluntary leavers as well as reduced output requirements. Despite the marked reduction of headcounts, the level of unfinished business at goods producers rose only fractionally over the month.

Purchasing activity increased for the sixth successive month. That said, the degree to which input buying increased eased to a marginal pace that was the weakest since September. Stocks of purchases and finished goods also rose slightly in January, and for the first time in three months in both cases. A number of panellists linked higher inventories to slower output growth and weaker-than-expected client demand.

Production costs declined for the first time since July 2013 in January. Moreover, the rate of input price deflation was marked overall, amid reports of lower raw material costs.

Reduced cost burdens were passed on to clients in the form of lower output charges in January and marked the second consecutive month of discounting.

Comment

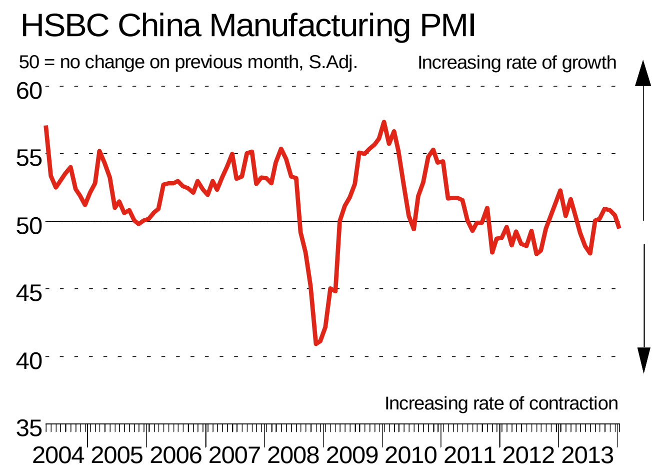
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"A soft start to China's manufacturing sectors in 2014, partly due to weaker new export orders and slower domestic business activities during January. Policy makers should pay attention to downside risks and pre-emptively fine-tune policy to steady the pace of growth if needed."

Key points

- Growth of output eases to marginal pace
- Quickest rate of job shedding since March 2009
- Marked falls in input costs and output charges

Historical Overview



Sources: Markit, HSBC.

The February HSBC Flash China Manufacturing PMI is due for release 20th February 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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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics