HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC China Manufacturing PMI™

Manufacturing output contracts for first time in 2015 so far

Summary

Operating conditions in China's manufacturing sector continued to deteriorate in May, as companies signalled a renewed contraction of output as total new business fell for the third month running. Data suggested that weaker demand overseas was a key factor behind the latest fall in new business, as new export work declined at the steepest rate since June 2013. Meanwhile, deflationary pressures in the sector eased, with both input and output prices recording the slowest rates of deflation since August 2014.

Adjusted 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 49.2 in May. Although this was up slightly from 48.9 in April, the index remained below the crucial 50.0 neutral mark and signalled a third successive monthly deterioration in the health of China's manufacturing sector. However, the rate of deterioration remained only slight.

May data signalled a renewed fall in Chinese manufacturing output, after production volumes stagnated in April. Although the rate of decline was only marginal, it was the first time that output had contracted since last December. Anecdotal evidence suggested that a softening in market conditions had dampened client demand. Furthermore, total new business placed at Chinese manufacturers has now fallen for three successive months. Data suggested that weaker demand from abroad was the main factor behind the latest reduction in new work. Moreover, the latest fall in new export business was the sharpest in nearly two years.

Manufacturers tempered their production plans in line with fewer new orders in May, with purchasing activity falling for the second month in a row. Consequently, stocks of purchases fell in May, though the rate of depletion was only slight.

Employment at Chinese goods producers declined again in May, extending the current sequence of job shedding to 19 months. According to anecdotal evidence, lower production requirements and the non-replacement of voluntary leavers led to reduced staff numbers. Meanwhile, backlogs of work rose fractionally over the month, after a slight reduction during April.

Average input costs fell again in May, albeit at the weakest rate in nine months. Prices charged also fell in May but, in line with the trend for cost burdens, the rate of discounting eased to its slowest since August 2014.

Comment

Commenting on the China Manufacturing PMI™ survey, Annabel Fiddes, Economist at Markit said:

"The headline PMI signalled a further deterioration in the health of China's manufacturing sector in May. A solid fall in new export work contributed to fewer new orders, which in turn led to the first contraction of output in 2015 so far.

"Furthermore, sustained job cuts, ongoing destocking activities and reduced purchasing activity all suggest that the sector may remain in contractionary territory as we head into mid-year. The latest survey data therefore suggest that more stimulus measures may be required to help boost domestic demand and recover some growth momentum."

Key points

- New export business declines at sharpest rate in nearly two years
- Employment falls for the nineteenth month in a row
- Deflationary pressures ease

Historical Overview

Sources: Markit, HSBC.

The June HSBC Flash China Manufacturing PMI is due for release 23rd June 2015.

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 over 30 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