

# HSBC China Manufacturing PMI™

## PMI signals marginal deterioration of business conditions in May

### Summary

Latest data signalled that operating conditions in China's manufacturing sector deteriorated only marginally in May. Output contracted at a fractional pace, while new orders stabilised after a three-month sequence of decline. Subdued client demand was linked by panellists to relatively weak market conditions. In contrast, new export orders rose at the quickest pace in over four years, with a number of companies citing new client wins. Job shedding meanwhile persisted, with the latest reduction of workforce numbers the strongest in three months.

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 49.4 in May, down slightly from the earlier flash reading of 49.7, and up from 48.1 in April. The reading signalled only a marginal deterioration in business conditions. The health of the sector, however, has now deteriorated in each month of 2014 so far.

Manufacturers in China reported a fourth successive monthly fall in output during May. That said, the rate of contraction was only fractional. According to panellists, uncertain economic conditions led some firms to lower production over the month. Total new business was unchanged in May, following a three-month sequence of reduction. Data suggested that muted domestic demand hindered overall new work wins, as new export orders rose at the fastest rate since April 2010.

Improving demand conditions led to an increased amount of purchasing activity in May, albeit only marginal. Nonetheless, it was the first time that input buying had increased in four months. Stocks of purchases were relatively unchanged in May, ending a three-month sequence of depletion. Inventories of finished goods fell for the first time in 2014 so far, though only slightly, as some companies increased their use of current stocks to meet new incoming orders.

Employment at manufacturing companies declined again in May, as has been the case since November 2013. The rate of reduction was marked overall, and partly driven by company down-sizing policies. Despite lower staffing levels, backlogs of work also declined.

Average cost burdens fell again in May, though the rate of deflation was the weakest in the current five-month sequence. In contrast, output charges increased for the first time in 2014 so far, with some firms commenting that improved demand conditions boosted pricing power.

### Comment

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

*“The final HSBC China Manufacturing PMI rebounded to 49.4 in May, up from 48.1 in April, and revised down slightly from the earlier flash reading of 49.7. New orders stabilized, while new export orders recorded an impressive expansion of 53.2. But growth momentum looked weaker than suggested in the flash reading as the stocks of finished goods index was revised up to 49.8 from 48.8 in the flash reading. The final PMI reading for May confirmed that the economy is stabilizing, but it is too early to say that it has bottomed out, particularly in light of a weaker property sector. The lack of a sustainable growth momentum warrants stronger policy support. We expect both monetary and fiscal policy to be loosened gradually over the coming months.”*

### Key points

- Contraction of output eases to marginal pace
- Total new orders stabilise as new export order growth hits 49-month high
- Companies continue to cut staff numbers

### Historical Overview

#### HSBC China Manufacturing PMI



**The June HSBC Flash China Manufacturing PMI is due for release 23<sup>rd</sup> June 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*<sup>™</sup> (*PMI*<sup>™</sup>) 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](mailto:economics@markit.com).

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*Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>™</sup>) 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](http://www.markit.com/economics)

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