HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC China Manufacturing PMI™

Operating conditions deteriorate at a slower pace in June

Summary

Latest survey data indicated that operating conditions faced by Chinese manufacturers continued to deteriorate in June, albeit at a weaker rate. Total new orders rose for the first time in four months, though only slightly, while output contracted at a weaker pace than in May. However, manufacturers continued to cut their workforce numbers in June, with the latest reduction the strongest seen since February 2009. On the costs front, average input prices fell at a modest rate that was the slowest since last August, while companies discounted their selling prices for the eleventh successive month.

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 49.4 in June. This was the fourth successive month that the PMI has registered a level in contractionary territory. However, the latest reading was up from 49.2 in May, and signalled a marginal rate of deterioration that was the slowest since March.

Manufacturers in China signalled a tentative improvement in overall demand conditions at the end of the second quarter. This was highlighted by a renewed expansion in total new business placed at goods producers in June, with new work from abroad also rising on the month. That said, the rate of growth was only slight in both cases.

Meanwhile, relatively subdued market conditions led companies to cut their production for the second month running. However, the rate of contraction eased since May and was fractional. Consequently, firms depleted their stocks of finished goods at a faster rate in order to fulfil new and current orders.

Chinese manufacturing employment declined for the twentieth consecutive month in June. Furthermore, the pace of job shedding accelerated to the fastest seen since February 2009. Reports from panellists suggested that staff numbers fell due to the implementation of cost-reduction policies. Reduced payroll numbers and a slight upturn in new work contributed to a second monthly accumulation in the level of work-in-hand.

Higher new business meanwhile led to increased purchasing activity in June. Although the rate of expansion was marginal, it was the first time that input buying has risen since March.

The latest survey pointed to a further easing in the rate of input price deflation during June, with average input costs declining at the slowest pace since last August.

Comment

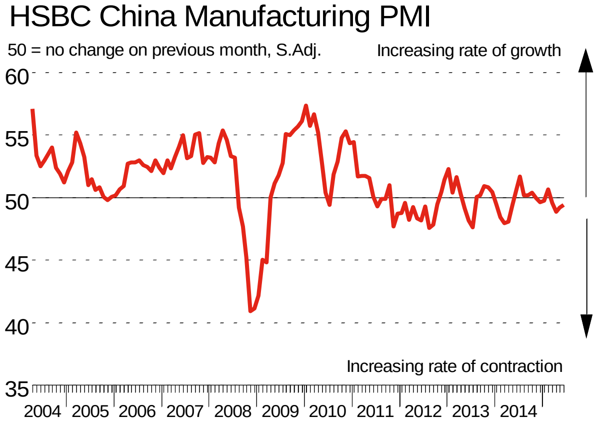
Commenting on the China Manufacturing PMI™ survey, Annabel Fiddes, Economist at Markit said:

"The final reading of the HSBC China Manufacturing PMI pointed to a further decline in the health of the manufacturing sector in June. This was predominantly driven by the sharpest rate of job shedding across the sector since early-2009, while output also fell slightly on the month.
"On the upside, there were some signs of improvement in the shape of renewed increases in total new orders and new export business, suggesting that client demand both at home and abroad is reviving. However, it is likely that more stimulus measures will be required to ensure that the sector can regain growth momentum and to encourage job creation."

Key points

- Output contracts at slower pace as new orders show signs of revival
- Staff numbers are cut at sharpest rate since February 2009
- Average input costs decline at slowest rate in eight months

Historical Overview



Sources: Markit, HSBC.

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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