

# HSBC China Manufacturing PMI™

## Operating conditions deteriorate at the end of 2014

### Summary

Chinese manufacturers signalled a renewed deterioration in operating conditions at the end of 2014, with both output and new orders falling slightly on the month. In contrast, new export business continued to increase in December, and at a slightly quicker rate than in November. In response to lower total new orders, firms cut their workforce numbers again in December, albeit only slightly. On the prices front, both input prices and output charges fell at the sharpest rates in nine 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 49.6 in December, down from 50.0 in November and the first deterioration in operating conditions since May. That said, the rate of deterioration was only marginal.

The weaker PMI reading was partly a result of a renewed fall in new business volumes placed at Chinese manufacturers in December. Though only slight, it was the first reduction in new orders since April. Data suggested that the decline was largely driven by softer domestic demand, as new export work rose for the eighth month in a row and at a slightly quicker rate than in November.

As a result of lower overall new business, manufacturers cut production for the second successive month in December. That said, the rate of reduction was weaker than in November and only fractional.

Manufacturing employment in China declined again in December, thereby extending the current sequence of job shedding to 14 months. However, the rate of reduction eased to the weakest in five months. Lower staff numbers contributed to an increased amount of work-in-hand (but not yet completed) in December. Furthermore, the rate of accumulation quickened to a solid pace that was the strongest since March 2011.

Lower production requirements led to the first reduction in buying activity since April, albeit only slight. Stocks of purchases meanwhile fell for the fifth straight month, with a number of companies mentioning stocks had fallen in line with softer client demand.

Average input costs faced by Chinese goods producers fell for the fifth month in a row during December. Moreover, the rate of reduction accelerated to the sharpest since March.

### Comment

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

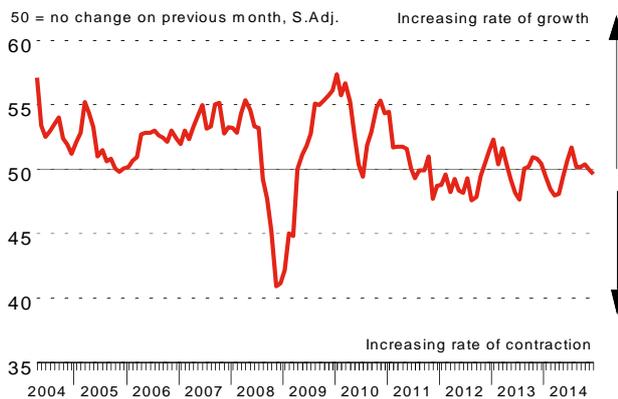
*“The HSBC China Manufacturing PMI fell to 49.6 in the final reading for December, down from 50.0 in November. As seen in the flash reading earlier, domestic demand led the slowdown as new orders contracted for the first time since April 2014. Price contraction deepened. Today's data confirmed the further slowdown in the manufacturing sector towards year end. We believe that weaker economic activity and stronger disinflationary pressures warrant further monetary easing in the coming months.”*

### Key points

- Output and new orders both decline slightly
- Job shedding persists and leads to solid increase in backlogs of work
- Both input costs and prices charged fall sharply

### Historical Overview

HSBC China Manufacturing PMI



Sources: Markit, HSBC.

**The January HSBC Flash China Manufacturing PMI is due for release 23<sup>rd</sup> January 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*<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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