

# HSBC China Manufacturing PMI™

## Operating conditions deteriorate at strongest rate in a year

### Summary

Chinese manufacturers saw a further deterioration in operating conditions in April, with total new orders declining at the strongest pace for a year while production levels stagnated. Data suggested that relatively weak domestic demand was the main driver of reduced new business, as new export work picked up in April (albeit marginally). Consequently, employment in the sector continued to decline, while purchasing activity fell at the quickest rate in 13 months. Meanwhile, deflationary pressures intensified in April, with both input and output costs falling at accelerated rates.

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 – remained below the neutral 50.0 value at 48.9 in April, down from 49.6 in March. This signalled a deterioration in the health of the sector for the second successive month. Moreover, the pace of deterioration was the strongest seen in a year.

Total new business placed at Chinese manufacturers declined for the second month in a row in April. Furthermore, the rate of contraction quickened since March to the strongest in a year. A number of panellists commented on relatively subdued market conditions and an associated downturn in client demand. Data suggested that fewer new orders were largely driven by weaker domestic demand, as new export work increased over the month, albeit at a marginal rate.

Weaker demand conditions led companies to become more cautious with regard to their production schedules, with firms leaving their output unchanged in April. This contrasted with increased output in the opening three months of the year.

Purchasing activity meanwhile declined for the first time since January. Though moderate, the rate of reduction was the quickest since March 2014, with a number of respondents attributing the fall to fewer new orders. Consequently, stocks of inputs declined for the second month in a row and at a faster rate than in March. Inventories of finished goods were also depleted in April, though the rate of reduction was similar to that seen in the previous month and only slight.

On the price front, average cost burdens faced by Chinese goods producers fell for the ninth successive month. Moreover, the rate of deflation accelerated to a sharp pace. In line with the trend for input costs, companies cut their selling prices again in April and at a solid rate.

### Comment

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

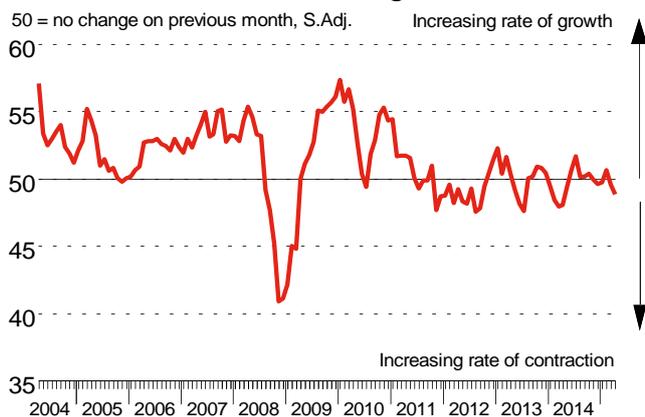
*“China’s manufacturing sector had a weak start to Q2, with total new business declining at the quickest rate in a year while production stagnated. Fewer new orders appeared to stem from weaker domestic demand, as new business from abroad showed tentative signs of improvement. Nonetheless, further job cuts and reduced purchasing activity suggest that the sector may struggle to expand in the near-term. Furthermore, the PMI data indicate that more stimulus measures may be required to ensure the economy doesn’t slow from the 7% annual growth rate seen in Q1.”*

### Key points

- Output stagnates as total new business declines at faster rate
- Slight upturn in new work from abroad
- Input and output prices both decline at stronger rates

### Historical Overview

#### HSBC China Manufacturing PMI



Sources: Markit, HSBC.

**The May HSBC Flash China Manufacturing PMI is due for release 21<sup>st</sup> May 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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