# HSBC China Manufacturing PMI™

## PMI hits three-month low in December

### Summary

Chinese manufacturers signalled a further expansion of output in December, though the rate of growth eased from the previous month. New orders also rose at a fractionally slower pace, with foreign sales posting a slight decline for the first time in four months. Staffing levels fell for the second month in a row, while backlogs of work increased at a moderate pace.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* posted at 50.5 in December, unchanged from the earlier flash reading, and down slightly from 50.8 in November. Operating conditions faced by Chinese manufacturers have now improved for five consecutive months.

Chinese manufacturers reported an increased amount of output for the fifth successive month in December. However, the rate of growth eased from November's eight-month high, and remained modest overall. Growth was supported by a further expansion of total new work. The degree to which new business increased was moderate, despite easing fractionally from November. Meanwhile, new business from abroad decreased for the first time in four months, albeit marginally.

Greater volumes of total new orders led to an increased amount of outstanding business across the sector. However, the rate of backlog accumulation eased to a three-month low. Meanwhile, payroll numbers declined for the second month running in December and at a modest rate. According to anecdotal evidence, employment levels fell due to the non-replacement of voluntary leavers.

Purchasing activity rose for the fifth successive month in December and at a moderate pace. Higher production requirements were cited by a number of panellists. In contrast, stocks of pre-production goods declined for the second month in a row. That said, the rate of depletion was unchanged from the previous month and marginal.

Average input costs faced by Chinese manufacturers increased for the fifth month running in December. Anecdotal evidence mentioned that higher purchasing prices raised production costs in the latest survey period. However, the rate of input price inflation was the weakest in the current sequence and moderate overall.

Meanwhile, selling prices declined for the first time in five months, though only at a fractional rate. According to anecdotal evidence, insufficient demand for goods led to some companies discounting their tariffs.

### Comment

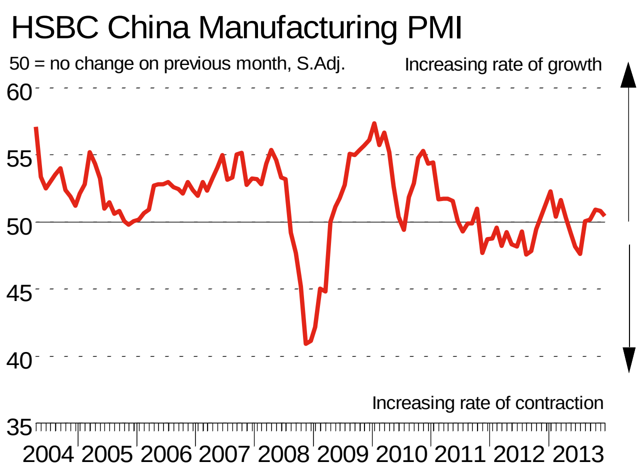
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The moderation of December's final HSBC China Manufacturing PMI was mainly due to slower output growth. However, the final PMI sustained the fifth above-50 reading in a row thanks to a steady increase of new orders. The recovering momentum since August 2013 is continuing into 2014, in our view. With inflation still benign, we expect the current monetary and fiscal policy to remain in place to support growth."*

### Key points

- Output and new orders increase at weaker rates
- New export orders decline for the first time since August
- Staffing levels decrease for the second month running

### Historical Overview




*Sources: Markit, HSBC.*

**The January HSBC Flash China Manufacturing PMI is due for release 23rd January 2014.**

**For all forthcoming PMI release dates please see [http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates](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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We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 countries and territories.

## About Markit:

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## About PMI:

*Purchasing Managers' Index™ (PMI™)* 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