HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC China Manufacturing PMI™

Operating conditions deteriorate at quickest pace since last September

Summary

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 48.2 in June, down from 49.2 in May, signalling a modest deterioration of business conditions. Operating conditions have now worsened for two successive months.

Chinese manufacturers signalled a first reduction of output for eight months in June. The rate of contraction was modest, and generally attributed to weaker client demand, as total new orders declined for the second month in a row. New business from abroad also fell in June, with the rate of contraction the fastest since last September, and the joint-sharpest in over four years. Anecdotal evidence suggested that reduced client demand, particularly from Europe and the US, led to fewer new export orders.

Fewer new orders enabled manufacturers to reduce the level of work-in-hand for the second month in a row, albeit marginally.

Staff numbers also decreased in June. The pace of job shedding was the fastest since last August, and joint-fastest since the depths of the financial crisis in early 2009. Anecdotal evidence implied that job cuts were due to a combination of employee resignations and weaker trends in output and new orders.

Purchasing activity decreased for the second consecutive month during June, and was generally associated with lower production requirements. That said, the rate of reduction was slight. Concurrently, stocks of purchases fell for the fifth month in a row, and at the quickest pace in the current sequence.

Average input costs faced by goods producers decreased for the fourth successive month and at a solid pace. According to anecdotal evidence, lower raw material costs drove the overall reduction.

Manufacturers passed on their savings to clients by cutting their average tariffs sharply over the month. A number of panellists also suggested that charges were discounted in an effort to boost client demand.

Finally, suppliers' delivery times shortened for the third month in a row, albeit slightly. Shorter lead times were linked to requests made by firms to vendors for faster deliveries.

Comment

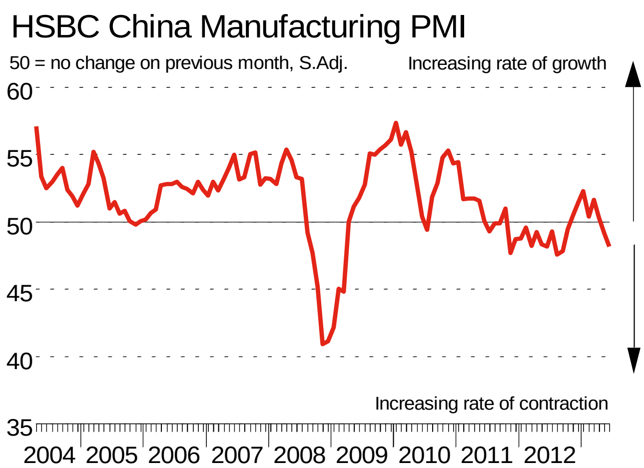
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Falling orders and rising inventories added pressure to Chinese manufacturers in June. And the recent cash crunch in the interbank market is likely to slow expansion of off-balance sheet lending, further exacerbating funding conditions for SMEs. As Beijing refrains from using stimulus, the ongoing growth slowdown is likely to continue in the coming months."

Key points

- Output contracts for first time since last October
- New export orders fall at the joint-fastest rate since March 2009
- Job shedding intensified

Historical Overview



Sources: Markit, HSBC.

The July HSBC Flash China Manufacturing PMI is due for release 24th July 2013.

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™ (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 PMIs:

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