

China

PMI signals fourth monthly industrial contraction, though rate of decline eases

- **Manufacturing PMI™ rises in April but remains below Q1 average**
- **Backlogs of work fall at fastest rate since start of 2009, suggesting firms will cut capacity**
- **Input prices and output charges fall again, albeit at reduced rates**

Business conditions in China's manufacturing economy deteriorated for a fourth successive month in April, according to the flash PMI produced by Markit for HSBC. The deterioration raises the possibility of a further weakening of GDP growth in the second quarter after growth slowed to 7.4% in the first quarter.

At 48.3 in April, the PMI was above March's eight-month low of 48.0 but was below the average value of 48.7 observed over the first quarter as a whole.

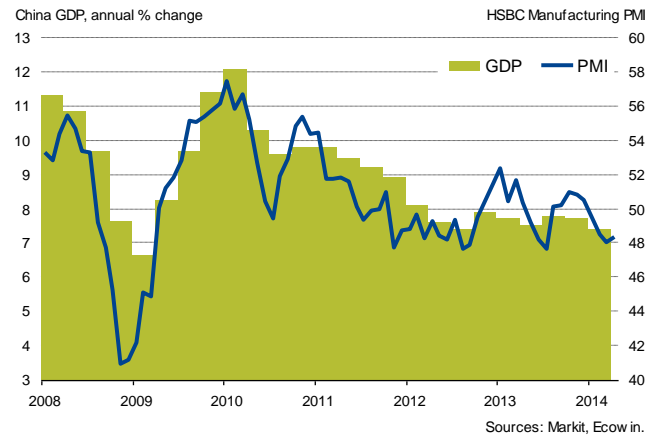
The April PMI reading was also the fourth consecutive month in which the PMI fell below the 50.0 no-change level, signalling an ongoing deterioration in business conditions throughout the year to date. New orders and output have both now fallen for three consecutive months, albeit with both rates of decline moderating slightly in April. Nevertheless, historical comparisons of the survey's output index against official industrial production data point to a substantial quarterly rate of decline in the region of 1%.

The downturn reflects weakening demand from both domestic and export markets, though with the export orders index signalling only a modest decline relative to the stronger downturn in total order books, the survey suggests that the main source of weakness is the domestic market.

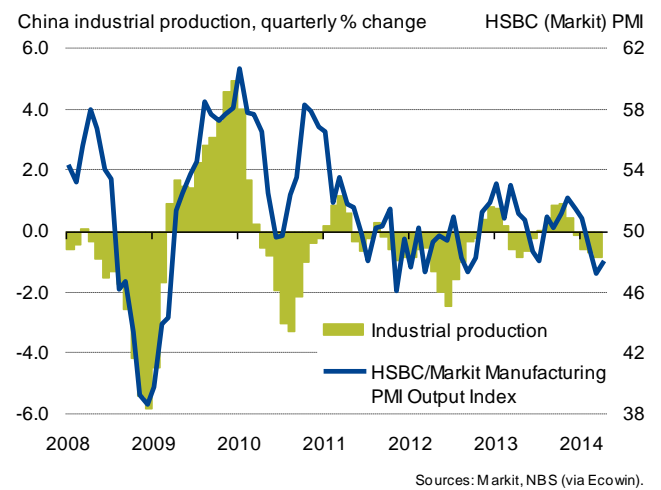
Falling backlogs of work prompt job cuts

The lower inflows of new orders caused backlogs of work to drop at the fastest rate seen since January 2009. This reduced sales pipeline prompted a growing numbers of firms to reduce headcounts in a bid to cut operating capacity. Although the fall in employment was larger than in March, it remained below the pace of job cutting seen at the start of the year.

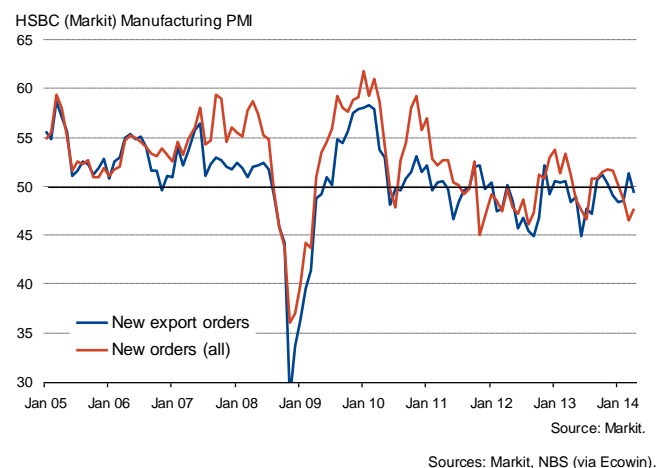
Economic growth and the manufacturing PMI



Industrial production



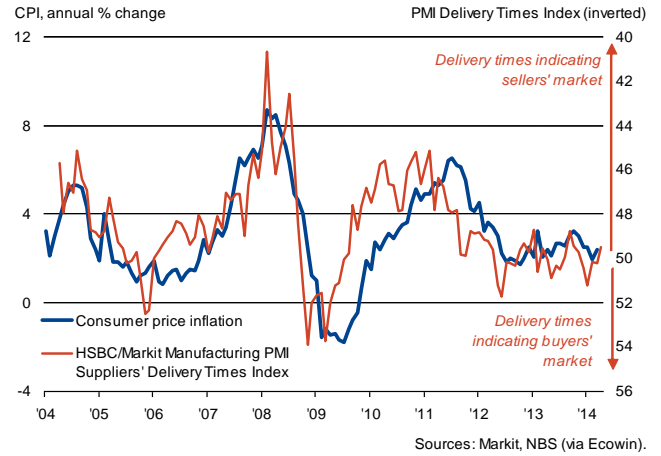
Order books



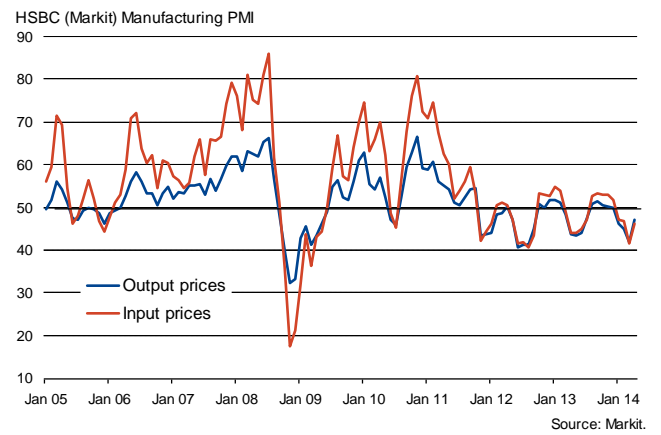
Input prices and output charges fall at markedly slower rates

With suppliers also adjusting capacity and stock levels to the lower demand environment, suppliers' delivery times lengthened slightly for the first time since November. However, prices paid by manufacturers for their inputs continued to fall, down for the fourth month in a row. Prices levied by manufacturers for their goods likewise fell, down for a fifth straight month. However, both costs and factory gate prices fell at markedly slower rates than March.

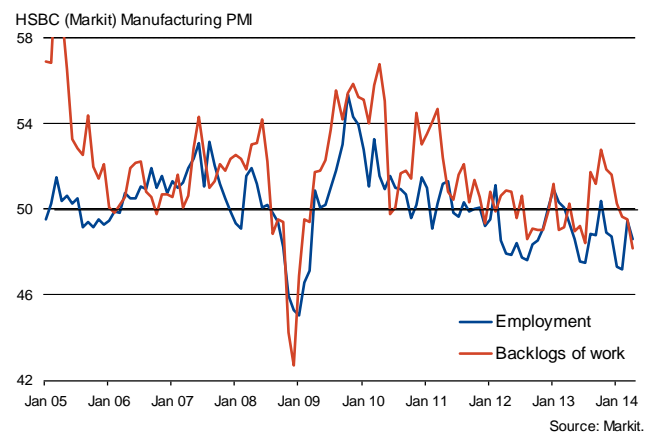
Suppliers' delivery times and inflation



Input and output prices



Operating capacity



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For further information, please visit www.markit.com