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Markit Economic Research

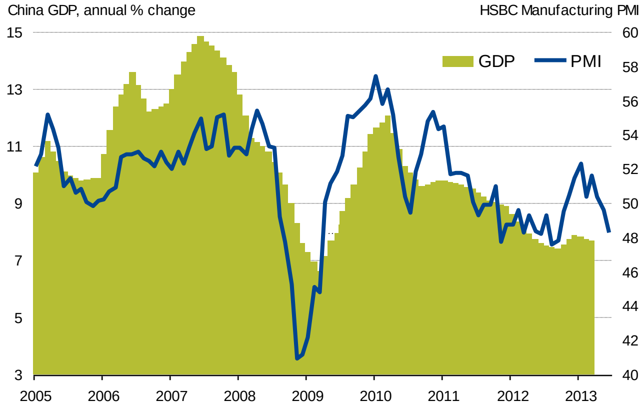
20/06/2013

China manufacturing

Flash PMI at nine-month low as export orders fall at fastest rate for four years

- **Flash manufacturing PMI slips to 48.3 in June**
- **Export orders fall at fastest rate since March 2009**
- **Stocks of finished goods show largest quarterly rise in survey history, often linked to weak demand**

PMI and GDP compared



Sources: Markit. Ecowin.

Business conditions in China's manufacturing economy deteriorated at the fastest rate for nine months in June, according to the HSBC flash PMI, produced by Markit. The headline PMI fell from 49.2 in May to 48.3, its lowest since September and signalled a second successive monthly downturn of the goods-producing sector.

The flash results are based on approximately 85% of usual monthly replies and provide an accurate advance indication of the final results, which will be published on 1 July.

The survey therefore adds to a recent flow of economic data out of China which indicate that the rate of growth of the world's second largest economy has slowed in the second quarter. The average PMI reading for the second quarter was 49.3, down from 51.5 in the first quarter, and the weakest since the third quarter of last year. Gross domestic product growth is therefore likely to have weakened from the already-disappointing annual pace of 7.7% recorded in the first quarter.

Export-led downturn

Output fell for the first time since last October, falling in response to a second successive monthly reduction in new orders, which suffered the steepest monthly decline since August of last year. New export orders fell especially sharp, dropping at the fastest rate since March 2009.

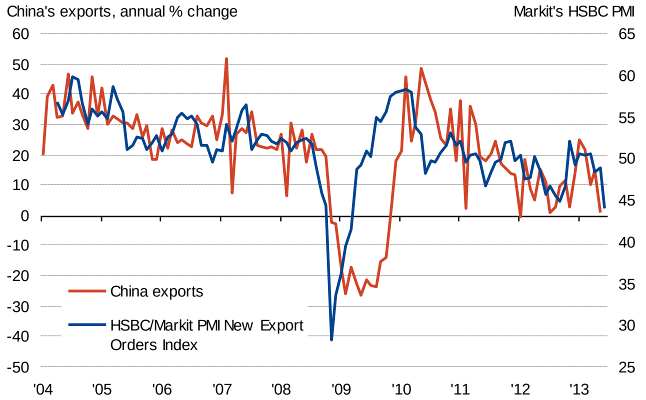
Further falls in production are likely in coming months. Not only did inflows of new orders fall, but stocks of finished goods rose for the fourth consecutive month. The rise in inventories is largely attributable to demand running lower than expected. The increase in stocks in the second quarter was the largest seen since the survey began in 2004.

Manufacturers cut back on their purchases of inputs to the greatest extent since September of last year in the face of weakened sales, adding to the evidence which suggests production may be cut again in July.

Prices fell as firms sought to stimulate sales. Input costs fell for the fourth month running, albeit to a lesser degree than in the prior two months, while manufacturers' selling prices fell at the steepest rate since last August, likewise dropping for the fourth month in a row.

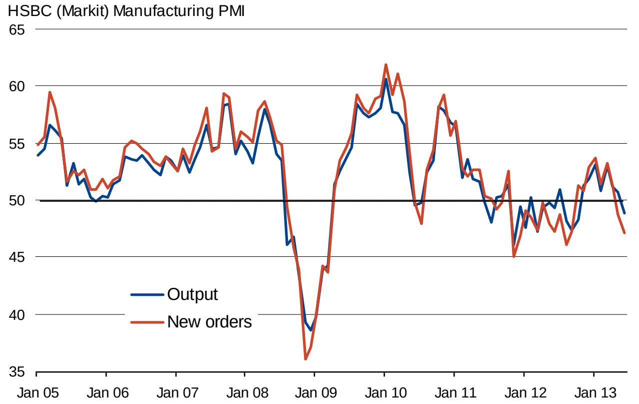
Finally, manufacturers reported the largest monthly fall in employment since last August, cutting headcounts for a third month running in order to adjust production down to meet weakened demand.

Exports



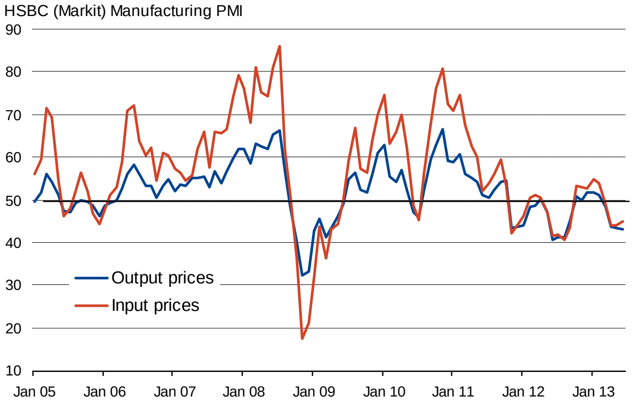
Sources: Markit, Ecowin.

Orders and output



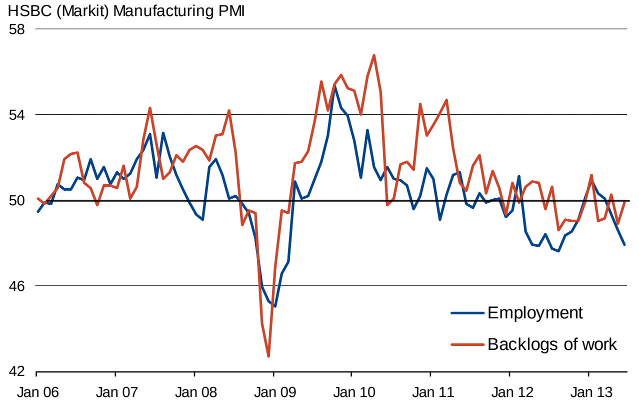
Source: Markit.

Prices



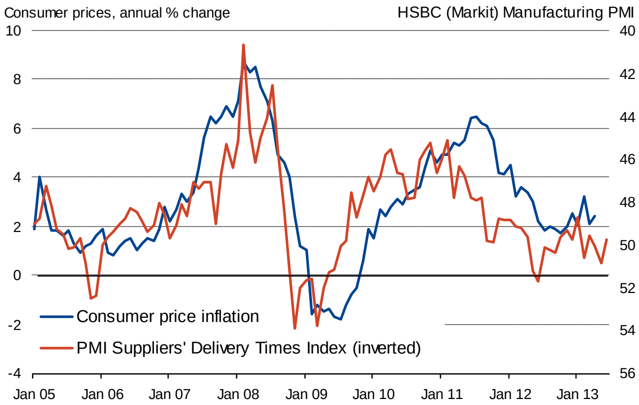
Source: Markit.

Employment and order book backlogs



Source: Markit.

Suppliers' delivery times (a measure of supply-chain price pressures) v. consumer price inflation



Source: Markit, NBS via Ecowin.

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