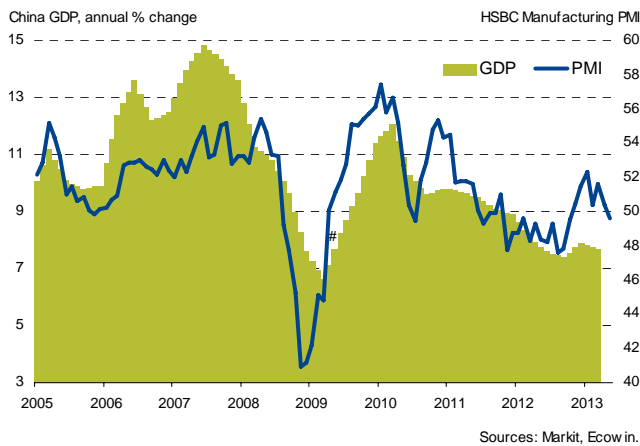


China

Flash PMI signals renewed downturn in manufacturing economy

- **Flash PMI falls below 50 in May to signal first decline of manufacturing sector in seven months**
- **Falling exports drive order books down for first time since September**
- **Employment and prices both fall again**

PMI and GDP compared



The HSBC China Manufacturing PMI fell to 49.6 in May from 50.4 in April, according to the flash estimate produced by Markit. The sub-50 reading means manufacturing business conditions deteriorated for the first time in seven months (i.e. since last October).

The latest survey results raises the possibility that growth in the manufacturing-dominated Chinese economy slowed further in the second quarter, after having already disappointed with a mere 7.7% annual rate of GDP expansion seen in the first quarter.

Falling exports drive order books lower

Manufacturers reported only marginal growth of output as new orders fell, albeit slightly, for the first time since last September. Weaker foreign demand was a key factor behind the order book deterioration, with new export work dropping for a second consecutive month.

Although the rate of decline of export orders eased slightly compared with April, registering only a very modest downturn, the weakness of China's exports raises concerns about the strength of global demand.

PMI data showed the global economy growing at the slowest rate for six months in April.

The data will also raise concerns about the extent to which overseas sales may be being lost to Japan, where the PMI survey there showed that a sharp depreciation of the yen has boosted export growth to its highest for two years in recent months.

PMI Exports Index v official data



Employment cut in line with weak demand

The drop in new order inflows meant firms ate into previously-placed orders to keep busy. Backlogs of work fell at the fastest rate since last August as a result.

Manufacturers also sought to reduce operating capacity in line with this order book decline, trimming employment for a second month in a row.

In a sign of producers possibly cutting output further in coming months, firms reduced their purchases of inputs slightly for the first time since September, and deliberately reduced their raw material stock holdings.

Stocks of finished goods, on the other hand, rose for a third successive month in May, often as a result of weaker-than-expected sales. Rising warehouse stocks of finished goods likewise suggests that production may be cut again in June unless demand picks up.

Charges fall at fastest rate since August

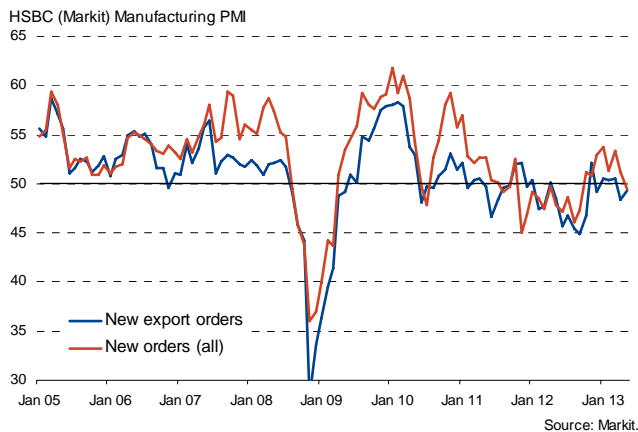
The May flash PMI data also showed firms' input costs falling for a third month running, the rate of decline

easing only slightly on the steep rate seen in April (which had seen the largest monthly drop in input prices for seven months). Manufacturers often passed on the drop in raw material costs to customers, cutting their selling prices at the fastest rate since last August, down for a third straight month.

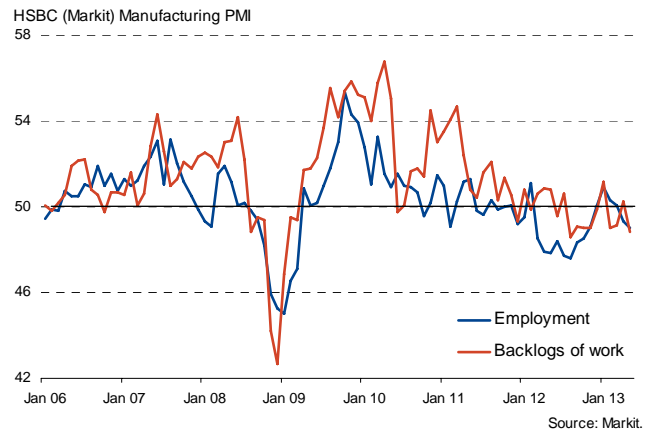
The downturn in input costs was in part attributable to lower prices for many commodities, but also reflected an increase in the number of suppliers offering discounts due to weak demand. Such an excess of supply of demand was indicated by suppliers' delivery times shortening to the greatest extent since June of last year.

The improvement in lead times signalled by the PMI's Suppliers' Delivery Times Index bodes well for inflation. Consumer prices rose at an annual rate of 2.4% in April, up from 2.1% in March, but the sellers' market indicated by the PMI suggests that the rate of inflation could slow again in May.

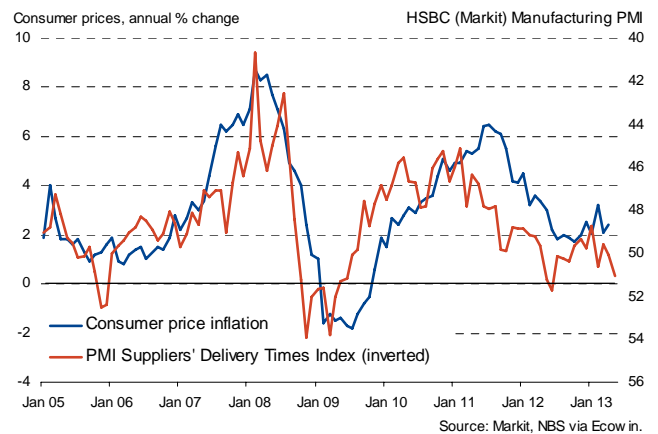
Exports and order books



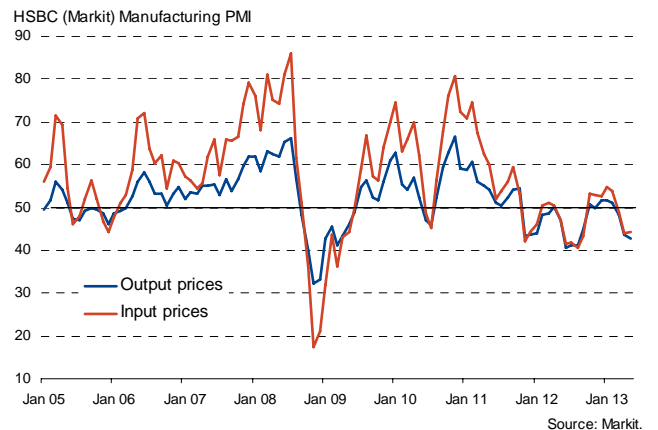
Employment and backlogs



Suppliers' delivery times and inflation



Input and output prices



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