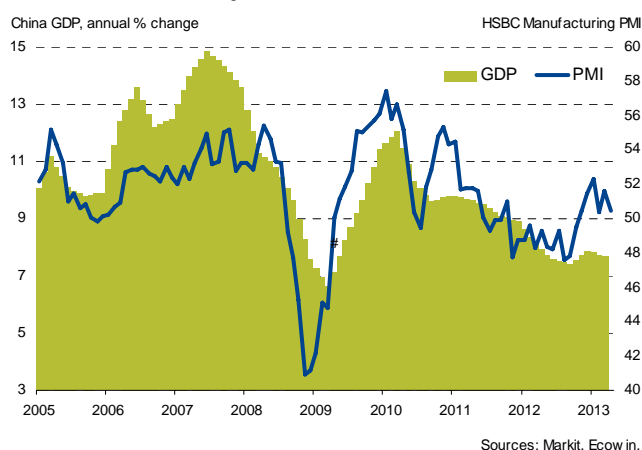


China

Fall in flash PMI signals near stagnation of manufacturing economy

- Further signs of economic slowdown as flash PMI falls to 50.5 in April
- Output and new orders grow at weaker rates as export orders suffer biggest fall since October
- Employment and prices both fall

PMI and GDP compared



The HSBC Manufacturing PMI fell from 51.6 in March to 50.5 in April, according to the flash estimate produced by Markit, only a shade higher than February's four-month low of 50.4. The above-50 reading means manufacturing conditions have now improved for six successive months but that the rate of expansion at the start of the second quarter slowed to near-stagnation.

With the April PMI coming in below the first quarter average of 51.5, the latest survey raises the possibility that growth in the manufacturing-dominated Chinese economy slowed further from the disappointing 7.7% annual rate of GDP expansion seen in the first quarter.

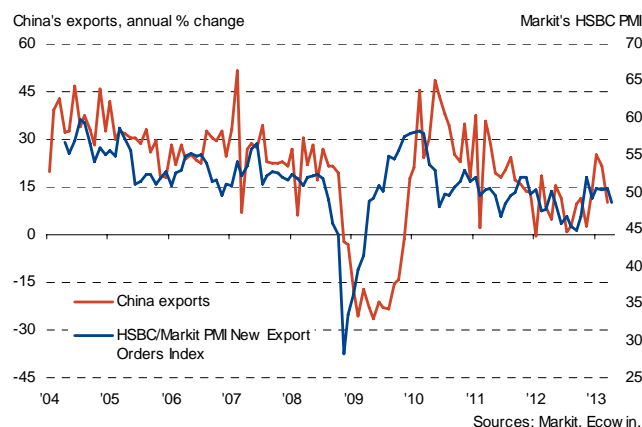
The weakness of the PMI also points to the possibility of a further slowdown in industrial production, after disappointing official data showed output growing at an annual rate of just 8.9% in March. While such a rate would be envied by developed economies, the rate of growth was the weakest seen since May 2009.

The April survey showed output and new orders growing at slower rates than in March and during the first quarter as a whole.

Exports fall

Weakness is being led by exports, with new export orders falling in April for the first time since December, and dropping at the fastest rate since October. Recent official data showed annual growth of exports falling to 10.0% in March, down from 21.8% in February and 25.0% in January.

PMI Exports Index v official data



Employment drops for first time in five months

The renewed weakness of order book inflows took its toll on payroll numbers, as manufacturers sought to streamline capacity in line with the disappointing growth of demand seen in recent months. Manufacturing employment fell for the first time since November, having managed only very modest growth in each of the prior four months.

Recent increases in inventories also suggest that production and employment trends may weaken further in May. Stocks of finished goods rose for a second successive month in April, rising to the greatest extent since last August, often as a result of weaker than expected sales.

Prices cut

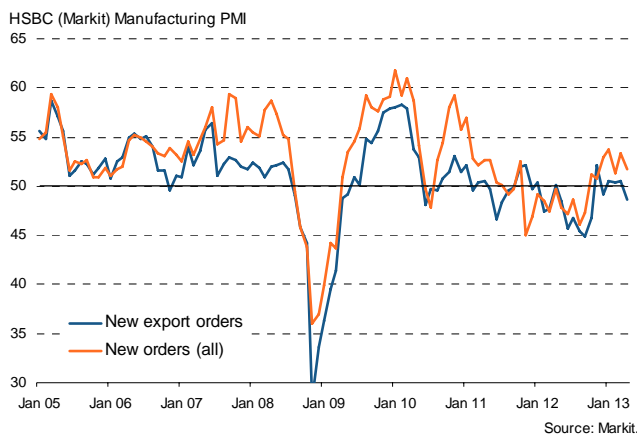
The April flash survey results also indicated a marked fall in firms' costs, which translated into a steep fall in prices charged by manufacturers. Average input prices

fell for a second consecutive month, dropping at the sharpest rate since September. Selling prices likewise declined for a second month running, registering the largest monthly fall since last August.

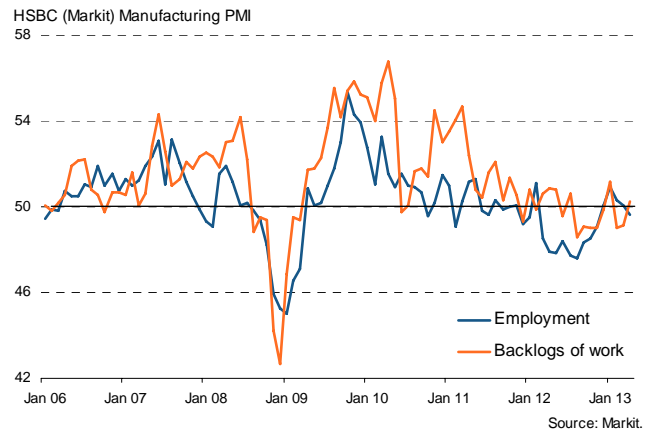
The drop in firms' input prices could be in part attributable to lower commodity prices. At mid-month, when the survey asks companies to compare the situation with one month ago, Brent crude oil had dropped 10.3% compared with mid-March (in US\$ terms), down 17.5% from its peak earlier this year, while West Texas Intermediate was down 7.5%, down 11.6% from its recent peak. Copper, a benchmark for other metals, had meanwhile fallen 4.5%, down 9.4% so far this year (based on LME prices).

Lower prices also reflect demand coming into line with supply in recent months, as signalled by the PMI's Suppliers' Delivery Times Index, which has indicated no significant lengthening of lead times in recent months. Such an absence of supply chain delays bodes well for consumer price inflation, which has already fallen from a worryingly high 3.2% in February to 2.1% in March.

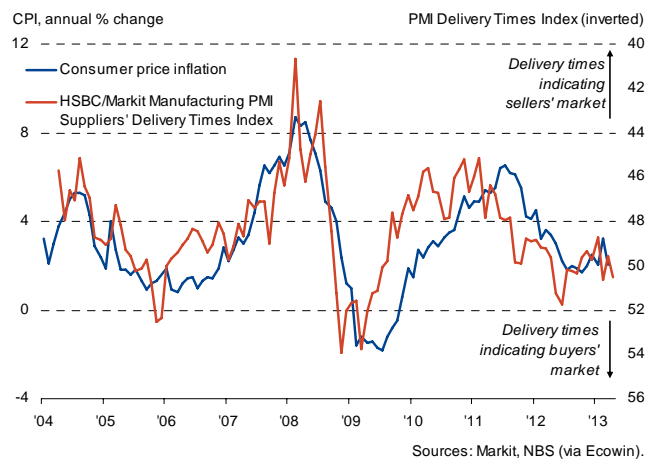
Exports and order books



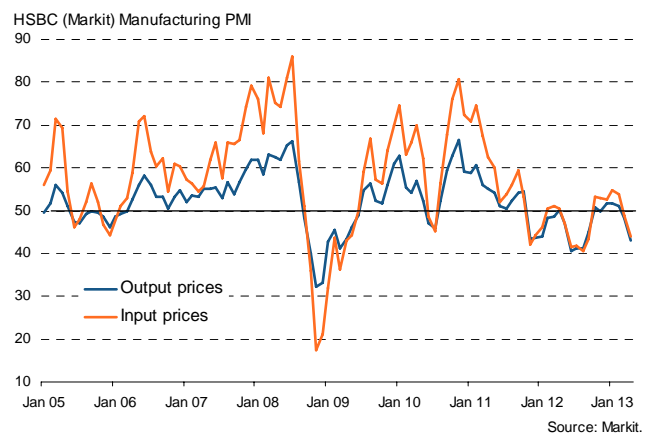
Employment and backlogs



Delivery delays and inflation



Input and output prices



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