HSBC Purchasing Managers' Index™ Press Release
Embargoed until: 10:30 (BEIJING), 29 April 2011

compiled by markit

HSBC China Manufacturing PMI™

Manufacturing output growth slows to nine-month low in April. Price pressures continue to ease.

Summary

After adjusting for seasonal factors, the headline HSBC Purchasing' Managers Index™ (PMI™) held steady at 51.8 in April, in line with the earlier flash estimate and signalling a moderate improvement in Chinese manufacturing sector operating conditions. However, the latest index reading was down on the long-run series average of 52.3.

April's survey pointed to relatively lacklustre growth of new business and a slower expansion in manufacturing production. Despite this, firms added to their workforce numbers at the fastest rate since last December. Meanwhile, companies continued to reduce their stocks of purchases, partly in an attempt to mitigate against delays in the supply chain.

Manufacturing production continued to rise in April, although the rate of expansion eased to the slowest in the current period of growth, which now extends to nine months. According to survey respondents, the weaker increase in output predominately reflected a subdued rate of new order growth, which was again slower than the long-run trend despite quickening from one month earlier. Anecdotal evidence provided by the survey panel suggested that below par growth reflected relatively soft market demand. Furthermore, only a marginal rise in new export orders was recorded during April.

Outstanding business increased again in April, extending the current period of expansion to ten months. However, the rate of backlog accumulation was the slowest since last October.

A further increase in manufacturing employment was registered during April. Although only modest, the pace of job creation was the fastest in 2011 so far. Where a rise in staff numbers was signalled, panellists commonly attributed growth to higher output requirements.

Slower growth of output was reflected in companies' purchasing decisions in April. The quantity of inputs bought by Chinese manufacturing firms increased at the weakest rate in nine months. Stocks of purchases decreased moderately, and at the fastest rate since last October, amid delays in the receipt of purchased items. Supply chain problems were highlighted by a further lengthening of average supplier lead times, which was largely attributed by respondents to stock shortage at vendors. The recent earthquake in Japan was also reported to have contributed to delays.

The rate of input cost inflation moderated to an eight-month low in April, but remained strong nonetheless. Rising raw material prices were cited as the key driver of inflation, with steel mentioned in particular. A number of panellists also mentioned higher oil prices. Firms attempted to offset part of the rise in purchasing costs by raising their prices charged to customers. However, similar to the trend in input costs, the pace of inflation eased to the slowest for eight months.

Comment

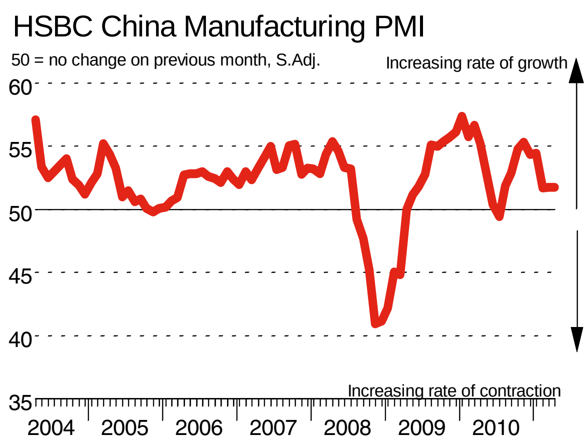
Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The final results from April's manufacturing PMI survey confirmed the picture of steady growth across the manufacturing sector. This, plus stronger-than-expected March growth and inflation data, calls for a continuation of Beijing's tightening efforts in the coming months."

Key points

- New order growth below long-run trend.
- Purchase price inflation eases to eight-month low.
- Fastest rate of jobs growth in 2011 so far.

Historical Overview



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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 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Chinese Industrial Production. 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.

HSBC:

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