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The HSBC China Manufacturing PMI series is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

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HSBC China Manufacturing PMI

Operating conditions in the Chinese manufacturing sector improved at the most marked rate since April 2008.

Key findings:

- PMI hit sixteen-month high of 55.1.
- Growth of new orders and output substantial.
- Input price inflation accelerated sharply.

Latest data signalled that growth of the Chinese manufacturing sector accelerated in August. Substantial increases in output and new orders were recorded over the month, as the sector continued its robust recovery from the steep downturn registered around the turn of the year. The headline HSBC China Manufacturing PMI™ rose to 55.1, from 52.8 in the previous month, its highest level since April 2008 and one indicative of a solid improvement in operating conditions.

Chinese manufacturing production rose for the fifth successive month in August, increasing at the joint second-steepest rate since the start of the series in April 2004. Those survey participants that reported an expansion of output generally attributed this to an improved business climate and further gains in new business.

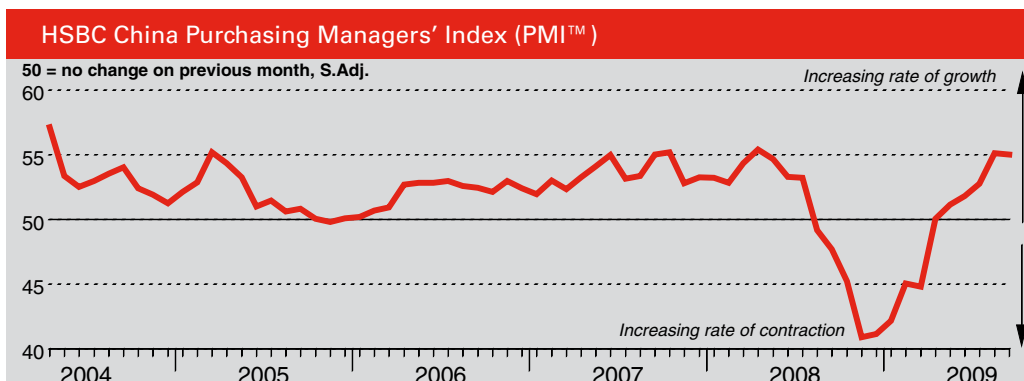
August data pointed to a strong and accelerated improvement in Chinese manufacturers' order book levels, extending the current period of expansion to five successive months. Where new business growth was signalled, this was frequently linked to strengthening demand from home and abroad. Data suggested that the primary source of demand strength came from the domestic market, with exports sales rising at a weaker rate than overall new work. Even so, foreign order levels increased at the sharpest pace since June 2007.

August figures signalled that backlogs of work rose at the fastest rate since May 2005 as manufacturers struggled to expand capacity in line with recent strong gains in new business. Growth of outstanding business has now been registered for five successive months.

August marked the third month running in which employment in the Chinese manufacturing sector has risen. The expansion of workforce numbers was modest, but the strongest for sixteen months. Of those companies that signalled employment growth, many attributed this to rising production requirements. There was also evidence that graduate intakes had bolstered employee numbers.

Input price inflation accelerated substantially in August, hitting a thirteen-month high, mainly driven by increased prices for a number of raw materials (with steel mentioned in particular). Prior to this surge of inflationary pressure, cost burdens had deteriorated for nine months in succession.

Increased input costs encouraged firms to raise their output charges for the second straight month in August. However, companies were unable to pass on the full extent of the rise in costs to clients, with output price inflation much weaker than that of input prices. There were also reports that firmer demand had strengthened a number of manufacturers' pricing power.

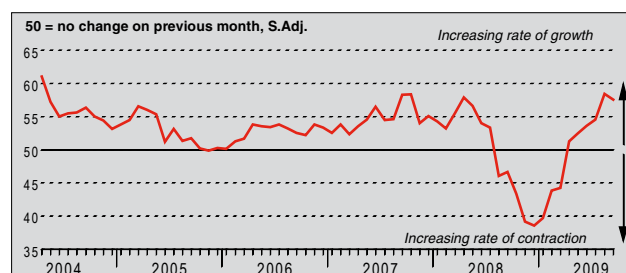


The HSBC China Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	34.3	46.8	18.9	15.5
	May	29.6	53.6	16.8	12.8
	Jun	29.5	56.9	13.6	15.9
	Jul	31.5	47.2	21.2	10.3
	Aug	31.6	53.8	14.6	17.0
	Sep	32.5	55.4	12.1	20.5

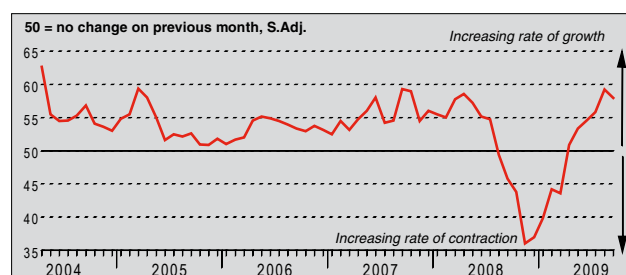


August data pointed to the fifth successive monthly expansion of production in the Chinese manufacturing sector. In contrast to the considerable contractions registered around the turn of the year, output growth accelerated to the joint second-fastest recorded by the series to date. Where manufacturers signalled an increase in output levels, this was commonly linked to further gains in new business and the start of new production lines. There was also evidence that improved trading conditions had encouraged firms to scale up production.

New Orders Index

Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	35.2	42.3	22.5	12.7
	May	32.3	50.0	17.8	14.5
	Jun	31.2	51.5	17.3	13.9
	Jul	32.5	48.0	19.5	13.0
	Aug	36.4	50.3	13.3	23.0
	Sep	34.0	52.7	13.3	20.6

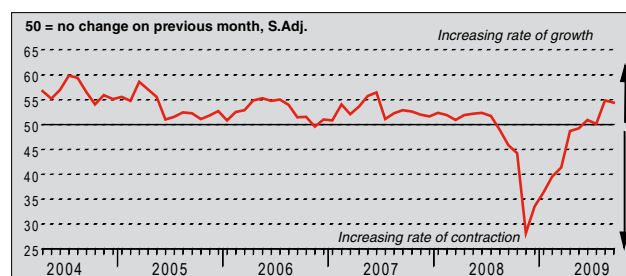


New business growth was signalled for the fifth successive month in August, with just over 36% of firms surveyed reporting an expansion of new order volumes since July. The seasonally adjusted New Orders Index maintained its upward trajectory, pointing to the joint third-sharpest rise in incoming new business since the start of the series in April 2004. Respondents attributed gains in new work to robust demand from both foreign and home markets, although data suggested that domestic demand was again the primary driver of growth in August.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	20.6	61.4	18.0	2.7
	May	18.6	67.4	14.1	4.5
	Jun	16.3	75.7	8.1	8.2
	Jul	14.3	70.7	15.0	-0.8
	Aug	19.5	74.5	5.9	13.6
	Sep	18.2	72.7	9.1	9.1

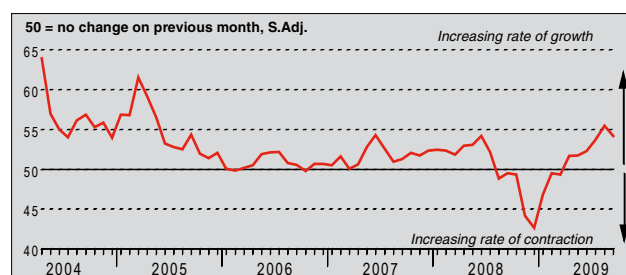


The recovery of China's manufacturing export market gained momentum in August, with new export orders rising at the sharpest rate since June 2007. It was the third successive month in which demand from external sources improved. Evidence provided by panel members suggested that firmer demand from foreign clients was the primary factor leading export sales higher, reflecting improved economic prospects amongst a number of China's trading partners.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	15.4	75.4	9.2	6.3
	May	12.9	81.8	5.3	7.6
	Jun	13.3	80.5	6.2	7.1
	Jul	14.5	78.1	7.4	7.0
	Aug	15.2	80.4	4.5	10.7
	Sep	13.8	81.8	4.4	9.4

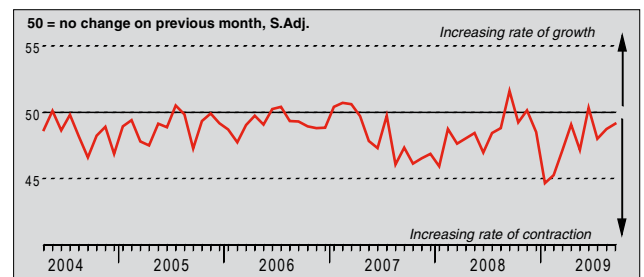


Levels of outstanding business in the Chinese manufacturing sector continued to rise in August, with the seasonally adjusted Backlogs of Work Index remaining above the neutral level of 50.0 for the fifth month in a row. Growth of backlogs was the strongest since May 2005, the pace of expansion having quickened for four straight months. Just over 15% of companies monitored by the survey reported an increase in unfinished work from a month ago, citing pressure on capacity resulting from higher levels of incoming new orders.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	13.4	73.2	13.3	0.1
	May	10.2	73.9	15.9	-5.7
	Jun	11.9	77.5	10.6	1.2
	Jul	9.7	76.2	14.1	-4.4
	Aug	10.7	76.0	13.3	-2.6
	Sep	11.9	75.3	12.8	-1.0

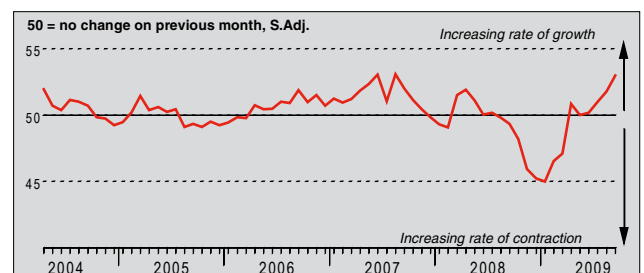


August figures indicated that post-production inventories in the Chinese manufacturing sector were reduced for the second month in succession. The pace of contraction was modest, and broadly in line with the historical average for the series. Anecdotal evidence suggested that some firms had opted to meet increased demand for their products by depleting their stocks of final goods. Destocking was also a result of policies aimed at streamlining inventories.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	11.1	82.7	6.2	5.0
	May	8.4	84.8	6.8	1.6
	Jun	8.3	84.8	6.9	1.4
	Jul	12.4	81.8	5.7	6.7
	Aug	13.2	79.3	7.5	5.7
	Sep	14.8	79.9	5.2	9.6

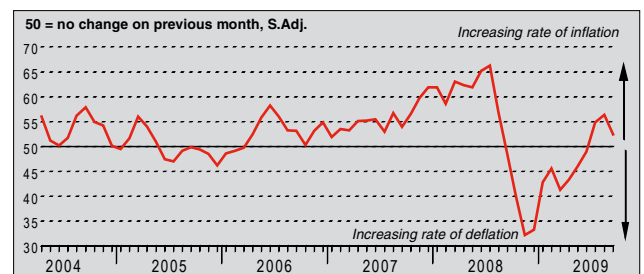


Staffing levels in the Chinese manufacturing sector increased for the third successive month in August. Job creation, although only modest, was the most marked since April 2008. Just over 13% of panel members registered an expansion of workforce numbers since July, against almost 8% that reported a reduction. Survey participants suggested that the latest round of recruitment was driven by the need to deal with growing workloads, while there were some reports that graduate intakes had led employment higher.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	11.3	67.5	21.2	-9.9
	May	11.6	74.6	13.8	-2.2
	Jun	14.6	76.2	9.2	5.4
	Jul	16.5	75.1	8.3	8.2
	Aug	19.1	75.0	5.9	13.1
	Sep	9.1	80.6	10.3	-1.2

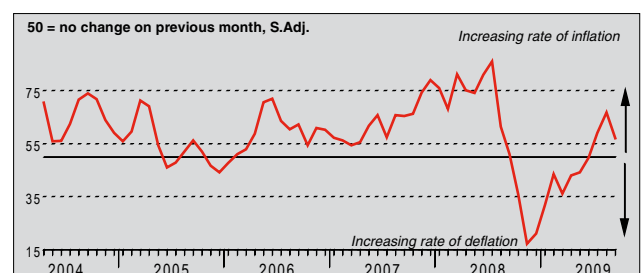


The seasonally adjusted Output Prices Index remained firmly above the neutral 50.0 threshold in August, to indicate a second successive month of output price inflation in the Chinese manufacturing sector. The pace at which firms raised their prices charged was robust, and the most marked for a year. Chinese manufacturers reported that they had increased their tariffs in response to considerable input cost rises, while there was also evidence that resurgent demand had strengthened their pricing power.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	20.0	51.7	28.3	-8.3
	May	15.4	67.1	17.5	-2.1
	Jun	22.1	67.4	10.5	11.6
	Jul	25.3	65.8	8.9	16.4
	Aug	40.9	55.3	3.8	37.1
	Sep	21.8	63.8	14.4	7.5

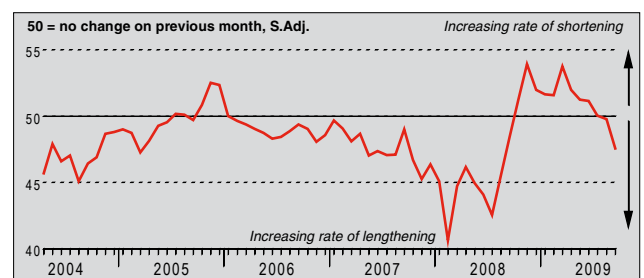


Input price inflation was registered in the Chinese manufacturing sector for the second straight month in August. The seasonally adjusted Input Prices Index rose to its highest level in just over a year, pointing to a considerable increase in cost burdens faced by manufacturers. Rising raw material prices were again cited as a key source of inflation, with metals such as steel reported to have increased in cost. Almost 41% of panellists reported a rise in purchase costs from a month ago. This was up sharply from just over 25% in July.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net +/-
2009	Apr	10.2	85.5	4.3	5.9
	May	5.9	89.0	5.1	0.8
	Jun	5.2	91.4	3.3	1.9
	Jul	4.5	89.2	6.3	-1.9
	Aug	4.9	89.4	5.7	-0.7
	Sep	5.1	84.7	10.3	-5.2

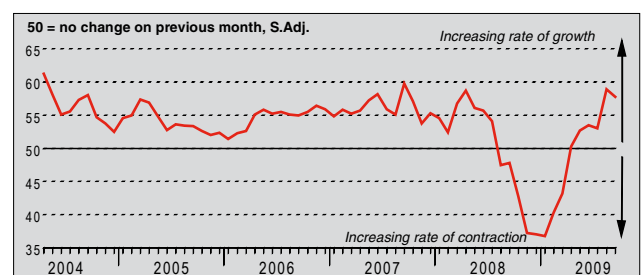


The seasonally adjusted Suppliers' Delivery Times Index fell below the neutral 50.0 threshold in August, to signal that average vendor performance deteriorated for the first time in just under a year. However, the rate at which lead times lengthened was only slight, with the majority of panellists (just over 89%) reporting no-change from the month before. Evidence provided by the survey panel linked slower delivery times to shortages of raw materials and building capacity pressures on transportation networks.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	33.7	46.3	20.0	13.7
	May	30.2	52.7	17.1	13.2
	Jun	26.7	56.2	17.0	9.7
	Jul	28.5	48.0	23.5	5.0
	Aug	32.2	52.3	15.5	16.7
	Sep	32.5	51.4	16.2	16.3

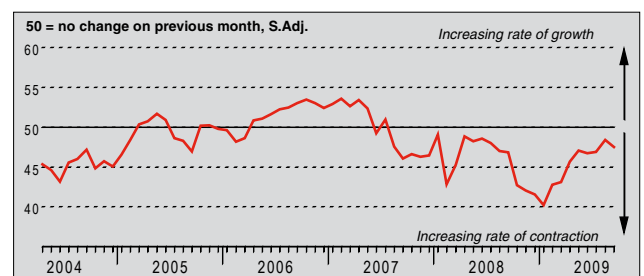


The quantity of inputs purchased by Chinese manufacturers rose for the fifth successive month in August. Prior to this sequence of growth, buying activity had fallen for eight months in a row. The seasonally adjusted Quantity of Purchases Index was at a level indicative of a strong expansion of purchasing, which was the third-sharpest since the inception of the series in April 2004. Respondents reported increasing their input buying in response to strong growth of new business.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Apr	16.5	64.8	18.7	-2.3
	May	12.9	70.2	16.9	-4.1
	Jun	10.6	71.9	17.5	-6.9
	Jul	13.8	68.5	17.7	-4.0
	Aug	12.7	72.0	15.3	-2.5
	Sep	11.4	72.6	16.0	-4.6



The seasonally adjusted Stocks of Purchases Index remained below the critical no-change mark of 50.0 in August, to signal a reduction in inventories of raw materials and semi-manufactured goods for the twenty-fifth month in a row. Approximately 15% of the survey panel reported a decrease in stock levels, with many attributing this to stock rationalisation policies aimed at utilising existing inventories in production. However, the pace of reduction was the weakest for fourteen months, mainly reflecting a strong rise in purchasing.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 430 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

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