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HSBC China Manufacturing PMI

PMI hits eighteen-month high. Strong growth of output and new orders accompanied by survey record increase in employment.

Key findings:

- Output and new business growth remained substantial.
- Employment rose at sharpest rate in survey history.
- Input and output price inflation eased further.

The headline HSBC China Manufacturing PMI™ rose to 55.4 in October, from 55.0 in the previous month, signalling that growth of the Chinese manufacturing sector was maintained at the start of Q4. Latest data indicated that operating conditions in the sector improved at the most pronounced rate for eighteen months.

Behind the latest PMI reading, October's survey signalled a robust and accelerated rate of job creation, while output and new business growth remained strong. Pre-production inventories rose for the first time since July 2007, while suppliers' delivery times lengthened slightly again.

Output in the Chinese manufacturing sector continued to rise in October, extending the current period of expansion to seven months. Production growth remained strong, despite easing to the weakest for three months. Those survey participants that reported a rise in output frequently linked this to greater inflows of new business, reflecting an improved outlook for demand and the wider economy.

Levels of new business placed at Chinese manufacturers rose again in October. Although growth of new work remained substantial, it was the slowest for three months. New order volumes have now risen in each of the past seven months. Where an increase in sales was signalled, respondents widely attributed this to new product developments and improved demand from both domestic and external sources. Volumes of

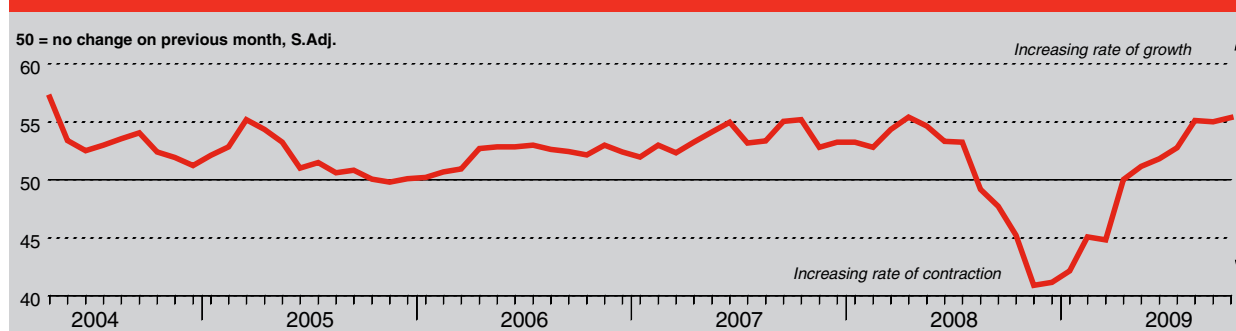
new export business received by Chinese manufacturing companies rose for the fifth month running in October, increasing at the strongest rate since June 2007. Evidence provided by the survey panel suggested that firmer demand from abroad, with North America mentioned in particular, had pushed export sales higher in October.

Manufacturing employment in China increased for the fifth successive month in October. Job creation was the strongest since the start of the series in April 2004 as substantial gains in new business continued to encourage companies to hire additional workers. Some firms also mentioned graduate recruitment schemes.

Output prices set by Chinese manufacturers rose for the fourth consecutive month in October. However, the rate of inflation was the weakest in that sequence. Of those respondents that reported an increase in factory gate prices, many linked this to rising input costs. Meanwhile, competitive pressures continued to restrict the ability of some companies to raise their prices charged.

Similar to the trend in output prices, average input costs faced by Chinese manufacturers rose at the weakest rate in the current four-month period of inflation. Panellists cited that rising demand on global commodity markets continued to generate marked inflationary pressure. Coal, cotton, crude oil and steel were all reported to have risen in price during October.

HSBC China Purchasing Managers' Index (PMI™)

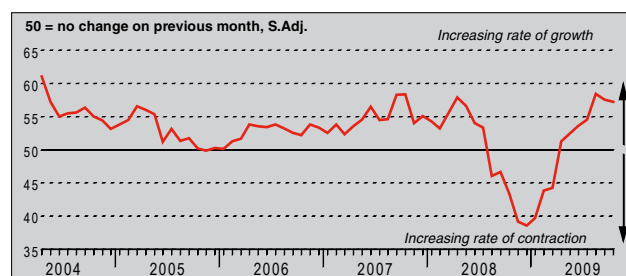


The HSBC China Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, 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	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
	Oct	25.7	55.2	19.1	6.6

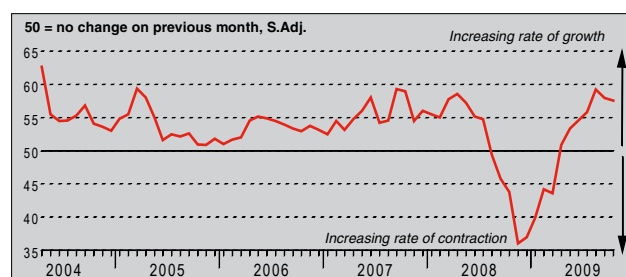


October data signalled that output growth was maintained in the Chinese manufacturing sector for the seventh month in succession. Despite easing to the weakest for three months, the pace of expansion was again substantial at the start of Q4. Panellists widely commented that production growth was supported by firmer demand from both external and domestic sources. There were also reports that business development strategies and improved economic conditions had driven output higher in October.

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	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
	Oct	26.5	55.1	18.4	8.1

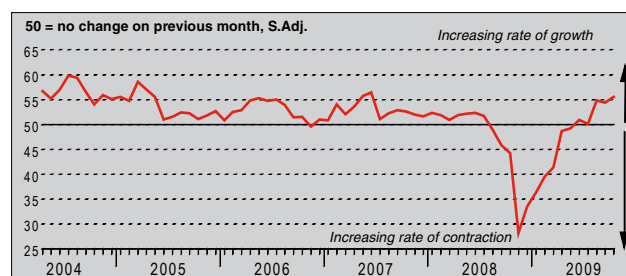


Despite slipping to a three-month low in October, the seasonally adjusted New Orders Index remained at a level indicative of a marked expansion of new order volumes placed at Chinese manufacturers. Almost 27% of companies reported greater inflows of new business from a month ago, with growth attributed to improved economic conditions and stronger demand. Some panellists also commented on new product developments. New order levels have now risen in each of the past seven months.

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	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
	Oct	18.5	70.8	10.6	7.9

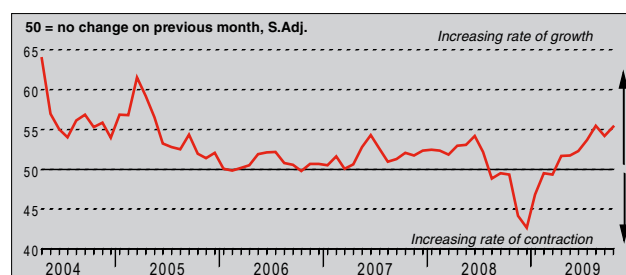


Volumes of new export business received by Chinese manufacturers rose for the fifth successive month in October, with around 19% of firms monitored by the survey registering an increase from the month before. Prior to this period of growth, foreign order levels had fallen for ten months in a row. Data signalled that the extent of the expansion was the strongest for twenty-eight months, with firmer demand (North America mentioned in particular) cited by survey participants as having pushed export sales higher.

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	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
	Oct	16.1	77.5	6.4	9.7

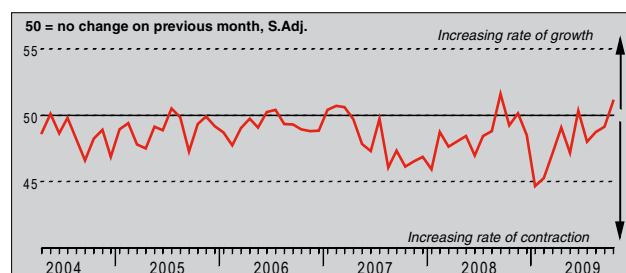


Chinese manufacturers continued to report difficulties in dealing with existing workloads in October. The seasonally adjusted Backlogs of Work Index rose to the second-highest level since May 2005 (only surpassed by that seen in August), pointing to a solid expansion of work-in-hand that was much faster than the series average. Those panellists that registered a rise in outstanding business generally attributed this to growing capacity pressures, reflecting continued gains in new business.

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	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
	Oct	12.9	76.8	10.3	2.6

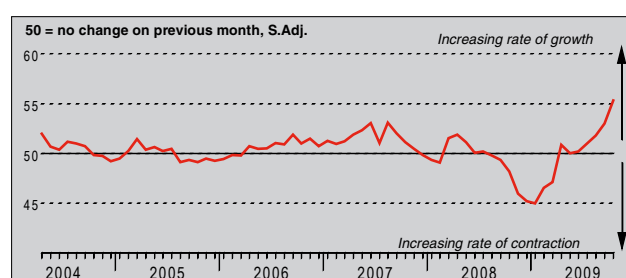


The seasonally adjusted Stocks of Finished Goods Index rose above the neutral level of 50.0 in October, signalling that post-production inventories at Chinese manufacturers increased for only the second time (June saw a fractional rise) in eleven months. What's more, the rate of stock build-up was the most marked in just over a year, with almost 13% of panellists registering a rise in their stock holdings from a month ago. Those firms that signalled an expansion of finished good inventories widely attributed this to rising production volumes.

Employment Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	12.4	84.7	2.9	9.5

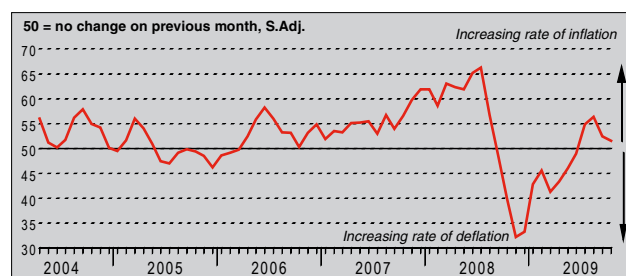


The seasonally adjusted Employment Index signalled that staffing levels in the Chinese manufacturing sector rose for the fifth successive month in October, increasing at the strongest rate recorded by the series to date. More than 12% of firms reported a rise in employment from a month ago, over four times the proportion that signalled a reduction. Where companies reported that they had added to their workforces, many attributed this to increased sales and graduate recruitment schemes.

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	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
	Oct	8.6	79.4	12.0	-3.5

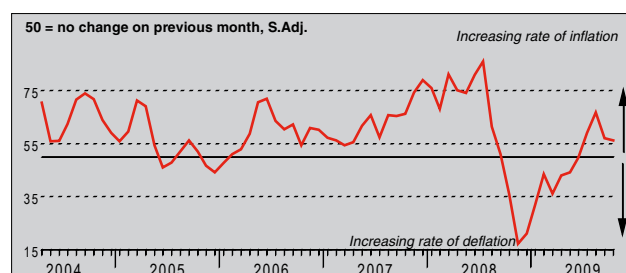


Prices charged by Chinese manufacturing firms were raised for the fourth month running in October. However, the rate of inflation continued to ease from August's recent peak to the weakest in that sequence. Those firms that reported an increase in output charges frequently linked this to rising cost burdens. Of those companies that reported reduced factory gate prices, the majority linked this to increased competition, which suppressed their ability to raise prices charged.

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	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
	Oct	17.6	68.1	14.3	3.4

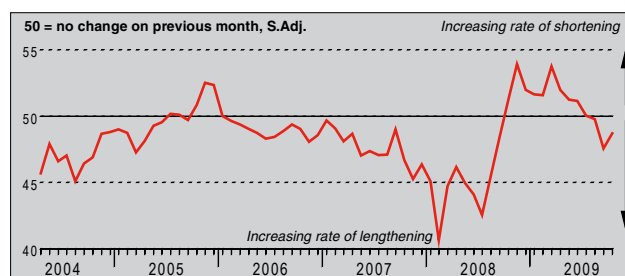


The seasonally adjusted Input Prices Index indicated that average cost burdens faced by Chinese manufacturers increased again in October, extending the current sequence of rising prices to four months. Although still marked, the rate of inflation was the weakest in that period, and slower than the series average. Some panellists cited increased demand on global commodity markets as having placed upward pressure on firms' cost burdens. Coal, cotton, crude oil and steel were all reported to have risen in price during October.

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	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
	Oct	5.1	88.1	6.8	-1.8

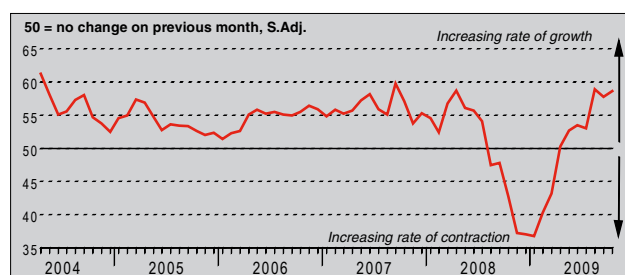


The seasonally adjusted Suppliers' Delivery Times Index remained below the neutral 50.0 threshold for the third month running in October, pointing to a modest lengthening in the time taken by vendors to deliver inputs to Chinese manufacturers. However, the vast majority of respondents (over 88%) signalled that lead times remained unchanged from the previous month. Slower delivery times were commonly linked by panellists to supply shortages at vendors, reflecting strong demand for inputs.

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	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
	Oct	29.1	55.3	15.5	13.6

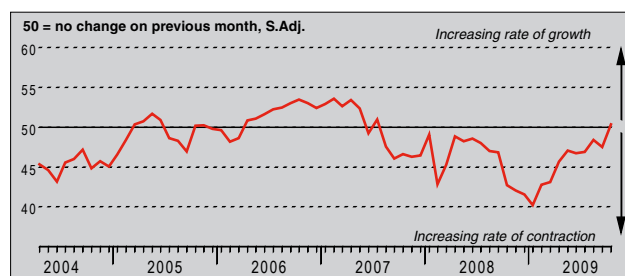


Input buying by Chinese manufacturers remained strong in October, as indicated by a rise in the seasonally adjusted Quantity of Purchases Index to its second-highest level since April 2008. Purchasing growth has now been registered in each of the past seven months. Where a rise in buying activity was signalled, survey participants frequently attributed this to increased production volumes. Stock-building policies were also cited by some panellists as having encouraged purchasing.

Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	13.4	74.3	12.3	1.1



October data signalled that pre-production inventories in the Chinese manufacturing sector rose for the first time since July 2007, with more than 13% of companies reporting a rise from the month before. Even so, the pace of expansion was only fractional. Those panellists that reported a rise in inventory levels widely attributed this to increased purchasing. Where destocking was indicated, this was frequently linked to stock rationalisation policies.

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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