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## HSBC China Manufacturing PMI

PMI hits survey high at the start of 2010, pointing to sharp growth of the Chinese manufacturing sector.

### Key findings:

- Output and new business growth the fastest since April 2004.
- Export sales rose at near-record rate.
- Input price inflation accelerated sharply.

At 57.4, up from 56.1 in the previous month, the headline HSBC China Manufacturing PMI™ rose to a record high at the start of 2010, signalling a marked improvement of operating conditions in the Chinese manufacturing sector. The index has now risen more than sixteen points since posting a record low in November 2008.

Behind January's PMI reading, the latest survey pointed to near-record increases in manufacturing output and incoming new business, while employment growth was maintained for the eighth month running. Slower delivery times were again signalled in January, while input inventories rose to the greatest extent since April 2007.

Manufacturing production in China rose for the tenth successive month in January, increasing at a sharp rate that was the second-fastest in the survey history. Where an increase in output was signalled, firms often linked growth to greater inflows of new business from external and domestic sources. Data signalled that new orders rose at the fastest rate since the first month of data collection in April 2004. New business growth was supported by firmer market demand, while there were also reports that improved economic conditions had led to higher client spending. Export sales also rose in January, increasing at a near-record rate. This was in sharp contrast to the severe reductions seen at the beginning of 2009.

Staffing levels in the Chinese manufacturing sector continued to

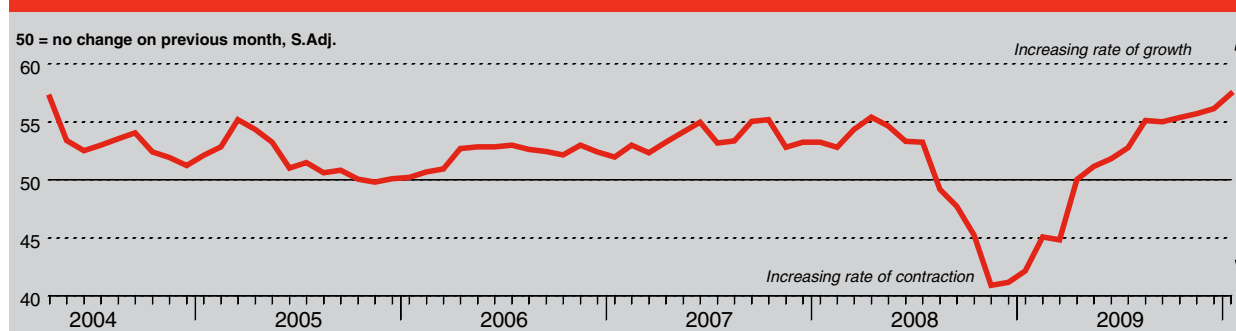
rise in January. Despite easing to the slowest in five months, the rate at which firms added to their workforce numbers was comfortably faster than the series average. Those respondents that reported a rise in employment generally attributed growth to continued gains in new business and a subsequent increase in production requirements.

Prices charged by Chinese manufacturers rose again in January, extending the current period of inflation to seven months. The rate at which firms raised their charges was the most marked since July 2008, mainly reflecting rising input prices. Higher client demand also allowed manufacturers to raise their factory gate prices on the month.

Data signalled that average cost burdens faced by Chinese manufacturing firms rose sharply in January, buoyed by increased prices for a number of raw materials. Prices paid for brass, copper, oil, steel and zinc were all reported to have risen from one month previously. Input price inflation, which was the strongest since July 2008, has now been signalled for seven months in succession.

Largely as a result of greater inflows of new work, buying activity rose at a substantial rate in January. Subsequently, average vendor performance deteriorated for the sixth month running. Slower lead times also reflected poor weather conditions. Furthermore, increased purchasing led to the greatest rise in stocks of purchases since April 2007.

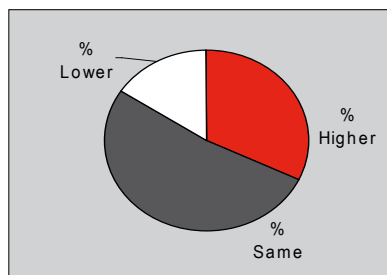
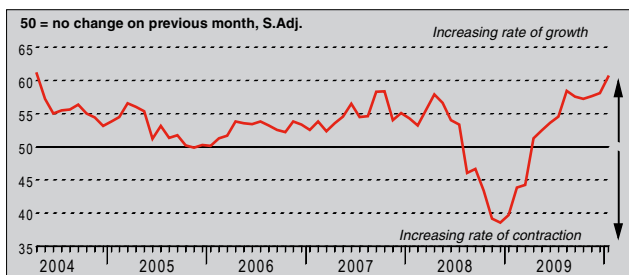
HSBC China Purchasing Managers' Index (PMI™)



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

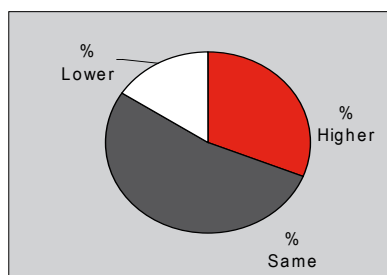
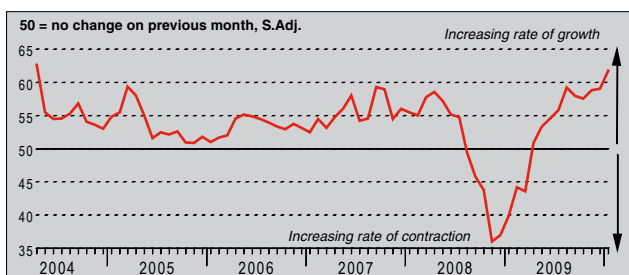
Q. Please compare your production/output this month with the situation one month ago.



Chinese manufacturing production increased at a near-record rate in January, with growth at the start of 2010 only surpassed by that seen when data were first released in April 2004. Strong growth maintained the impressive turnaround from the considerable reductions seen at the beginning of 2009. Where a rise in manufacturing output was signalled, companies attributed this to higher intakes of new orders and favourable market conditions. Production growth has now been registered for ten successive months.

### New Orders Index

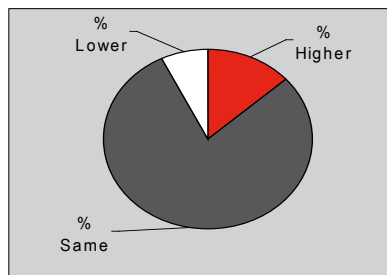
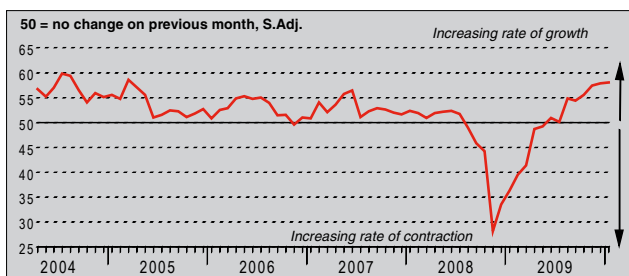
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



Levels of new business received by firms operating in the Chinese manufacturing sector increased in January, extending the current period of growth to ten months. The seasonally adjusted New Orders Index rose to its second-highest level in the survey history, pointing to a considerable expansion of new work. Of those companies that reported an increase in new orders (more than 31%), many linked this to strong market demand. There were also reports that improved economic conditions had encouraged client spending in the latest survey period.

### New Export Orders Index

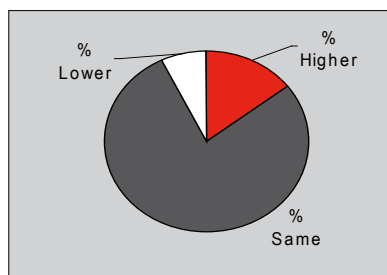
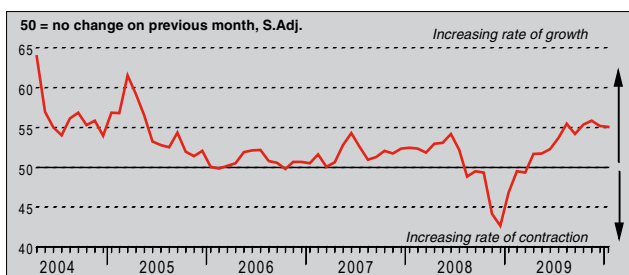
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Export sales at Chinese manufacturers continued to rise in January, with more than 13% of panellists reporting an increase from one month previously. Data signalled that the rate of expansion was substantial, accelerating to the fastest since March 2005. Evidence provided by the survey panel suggested that firmer demand from foreign clients was the primary factor leading new export business higher, mainly reflecting improved global economic conditions.

### Backlogs of Work Index

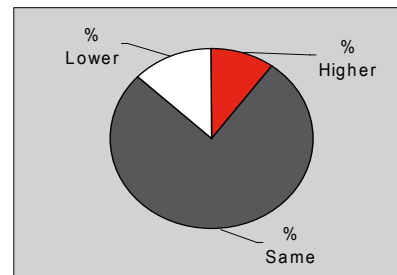
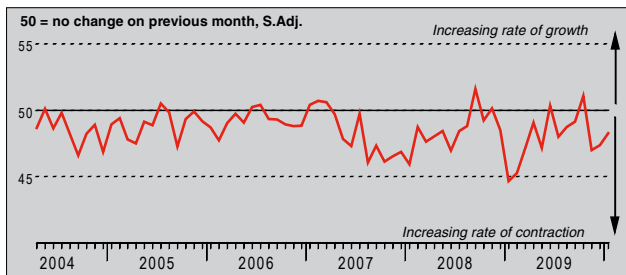
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Data signalled that volumes of outstanding business at Chinese manufacturers rose for the tenth successive month in January. Despite falling to a four-month low, the seasonally adjusted Backlogs of Work Index remained at a level indicative of a solid expansion of work-in-hand. Almost 15% of panellists reported an increase in unfinished business from a month ago, approximately double the proportion that signalled a reduction. Those survey participants that reported an accumulation of backlogs widely attributed growth to further gains in new business.

## Stocks of Finished Goods Index

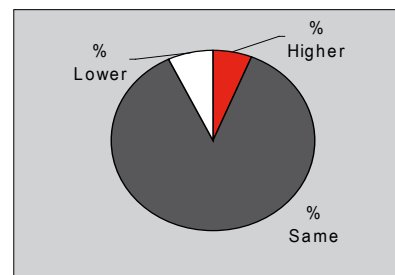
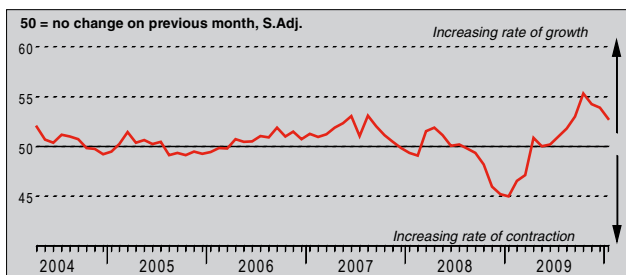
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained below the neutral 50.0 threshold in January, pointing to a further reduction of post-production inventories in the Chinese manufacturing sector. Despite easing to the slowest in the three-month period of decline, the rate of destocking remained faster than the historical average for the series. Anecdotal evidence suggested that reduced stock levels reflected higher-than-expected sales as a greater volume of new orders were met directly from existing inventory.

## Employment Index

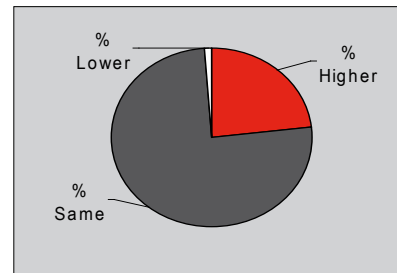
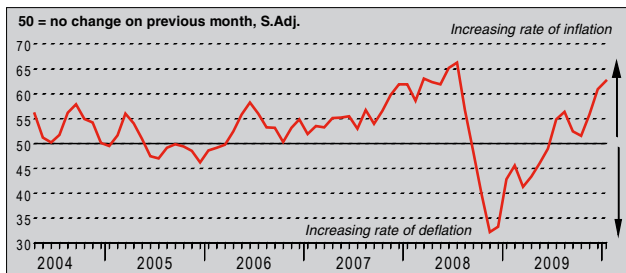
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment growth in the Chinese manufacturing sector was maintained at the start of 2010. Despite easing to the slowest in five months, the rate at which firms added to their workforce numbers remained faster than the series average. Where an increase in staffing levels was signalled, survey participants often linked this to rising new orders and a subsequent increase in production requirements. January marked the eighth month running in which employment levels have risen.

## Output Prices Index

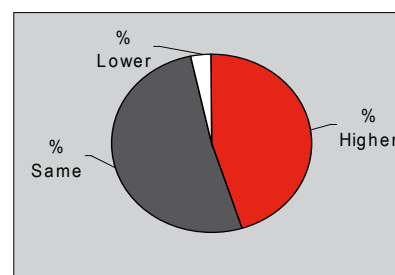
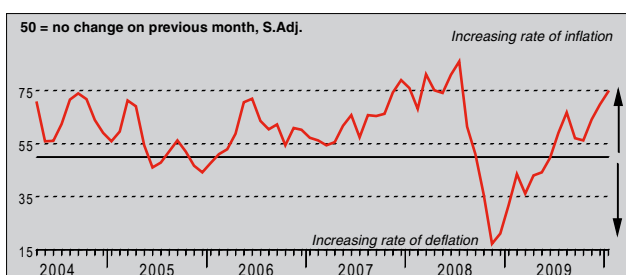
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



January data signalled that output prices set by Chinese manufacturers rose at a sharp rate that was the fastest since July 2008. Output price inflation has now been registered for seven successive months. Prior to this sequence of growth, factory gate prices had been reduced for ten months in a row. Those respondents that reported a rise in output charges commonly linked this to rising raw material prices. Inflation was also driven by firmer client demand, which enabled more firms to raise their charges on the month.

## Input Prices Index

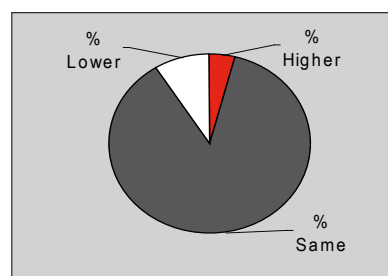
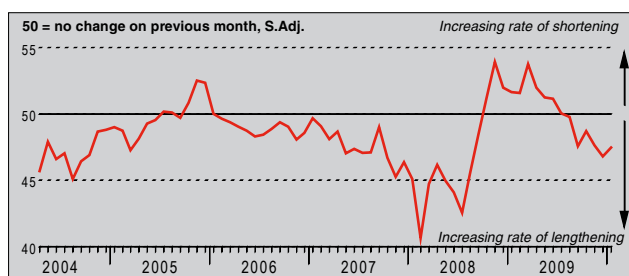
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



After adjusting for seasonal variation, the Input Prices Index climbed to its highest level since July 2008, pointing to a substantial rise in average cost burdens faced by Chinese manufacturers. Inflation maintained the turnaround from the sharp declines in costs seen around the beginning of 2009, when the global downturn was at its worst. Prices paid for brass, copper, oil, steel and zinc were all reported to have risen on the month, with many panellists signalling that inflationary pressures emanated from domestic sources.

## Suppliers' Delivery Times Index

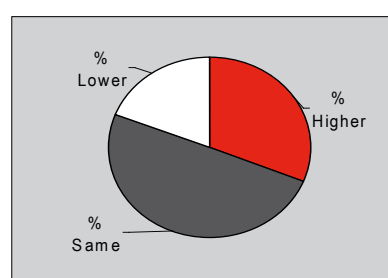
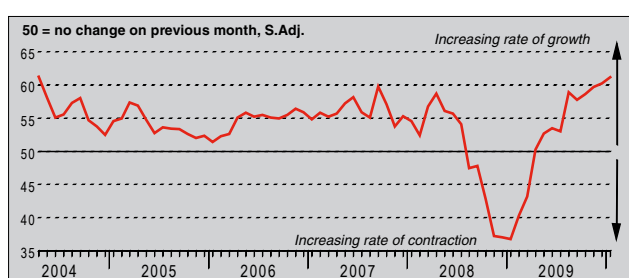
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by suppliers to deliver inputs to Chinese manufacturers lengthened for the sixth consecutive month in January. Almost 9% of firms reported a deterioration in average vendor performance, against 4% that indicated an improvement. Survey participants widely commented that slower lead times reflected reduced supply at vendors, while there were also reports that adverse weather conditions had led to an increase in the incidence of delays.

## Quantity of Purchases Index

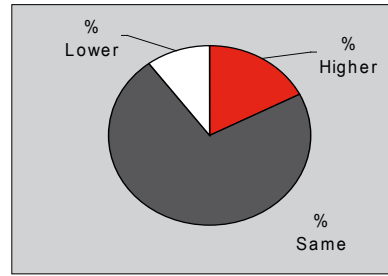
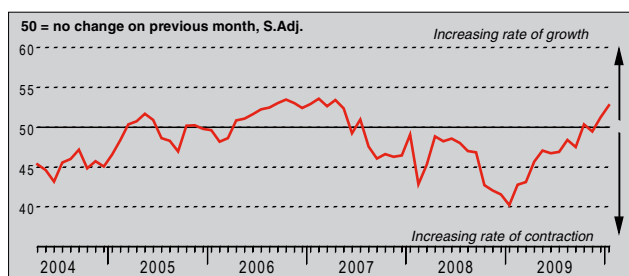
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Buying activity in the Chinese manufacturing sector rose sharply in January, with more than 31% of companies reporting an increase from a month ago. The rate of expansion was the most marked since April 2004, when data were first published. Where a rise in input buying was signalled, this was often linked by respondents to further gains in output and new business, which also rose at a near-record rate. Purchasing growth has now been registered for ten successive months.

## Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index signalled that pre-production inventories at Chinese manufacturers continued to rise in January, largely as a result of increased purchasing. Despite accelerating to the most marked since April 2007, the rate at which firms accumulated stock was only moderate. Approximately 18% of manufacturers monitored by the survey reported an increase in inventory levels from the previous month, compared to 10% that signalled a reduction.

## 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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