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HSBC China Manufacturing PMI

Marked growth of output and new business led to solid improvement in overall operating conditions.

Key findings:

- Output rose markedly, supported by strong gains in new orders.
- Export sales increased to the greatest extent since March 2005.
- Pre-production inventories rose at the fastest rate in the survey history.

Despite slipping to a three-month low of 55.8 in February, the headline HSBC China Manufacturing PMI™ posted a level indicative of a marked improvement of operating conditions in the Chinese manufacturing sector.

Behind February's PMI reading, the latest survey pointed to substantial, albeit slower, growth of incoming new business and output. Meanwhile, job creation, a record rise in pre-production inventories and the seventh successive monthly lengthening of lead times also supported the headline figure.

Chinese manufacturing production increased for the eleventh month running in February. Despite easing to the slowest since last November, the rate of expansion was still marked. Where a rise in manufacturing output was signalled, respondents attributed growth to further gains in new business. There were also reports that favourable economic conditions had led production higher.

The level of new work received by Chinese manufacturers rose again in February, extending the current period of expansion to eleven months. New business growth remained sharp, despite easing from January's near-record. Those firms that reported a rise in new order intakes often linked this to firmer client demand. Export sales at Chinese manufacturers increased to the greatest extent since March 2005. Anecdotal evidence suggested that this mainly reflected improved economic conditions among a number of China's key trading partners.

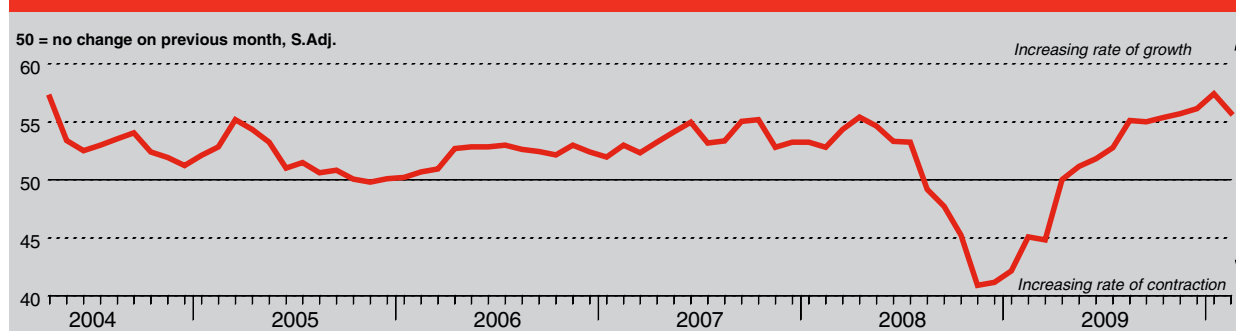
Staffing levels in the Chinese manufacturing sector continued to rise in February, although the rate at which firms added to their workforce numbers was only marginal and the slowest in seven months. Business expansion plans and rising production requirements were cited by panellists as having supported employment growth.

Average input costs faced by firms operating in the Chinese manufacturing sector rose for the eighth consecutive month in February. Although much slower than one month previously, the rate of inflation was still considerable. Prices paid for aluminium, coal, oil, steel and zinc were all reported to have risen.

Latest data signalled that prices charged by Chinese manufacturers rose in February, albeit to a much lesser extent than one month ago. Those firms that reported an increase in factory gate prices widely attributed inflation to rising prices for a range of raw materials.

Purchasing activity increased markedly in February, largely as a result of rising output requirements. Subsequently, the average time taken by vendors to deliver inputs to manufacturers lengthened for the seventh month in succession. Data also signalled that firms accumulated pre-production goods at the fastest rate since the start of the series in April 2004. Panellists widely commented that higher stock levels reflected strong sales and output forecasts.

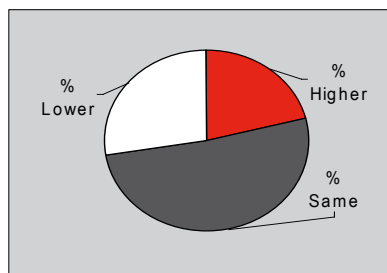
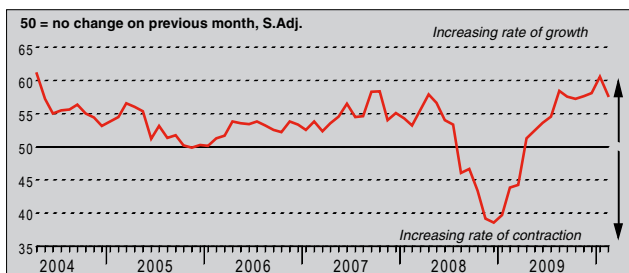
HSBC China Purchasing Managers' Index (PMI™)



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

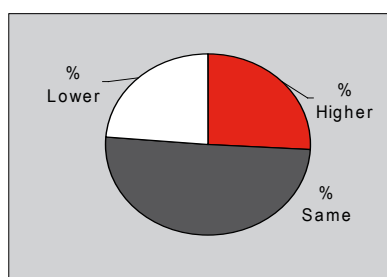
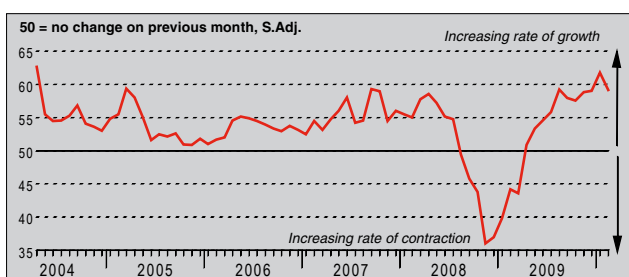
Q. Please compare your production/output this month with the situation one month ago.



After adjusting for seasonal variation, the Output Index signalled that Chinese manufacturing production rose for the eleventh successive month in February. Despite easing from January's near-record, the rate of expansion remained substantial, and much faster than the historical average for the series. Anecdotal evidence suggested that output growth was supported by greater inflows of new business. Some panellists also mentioned that favourable economic conditions had led production higher.

New Orders Index

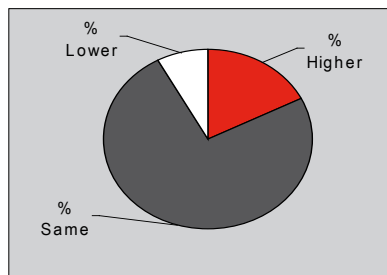
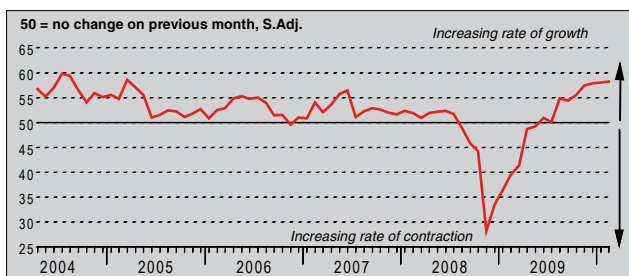
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



The level of new business received by firms operating in the Chinese manufacturing sector rose again in February, extending the current period of growth to eleven months. Despite falling since January, the seasonally adjusted New Orders Index was still at a level indicative of a sharp expansion of new orders. Those respondents that reported a rise in new work often linked this to strong client demand. There were also reports of new product launches and sales promotion activities.

New Export Orders Index

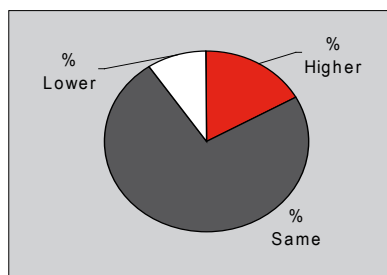
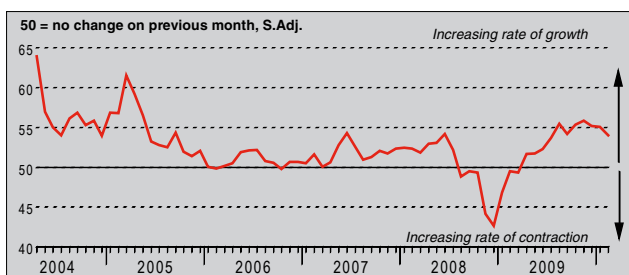
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Edging up slightly from one month previously, the seasonally adjusted New Export Orders Index posted its highest reading in almost five years to indicate a sharp rise in export sales at Chinese manufacturers. Foreign order levels have now risen for nine months in succession. Where an increase in new export business was signalled, this was generally attributed by panellists to rising market demand, largely reflecting improved economic conditions among a number of China's key trading partners.

Backlogs of Work Index

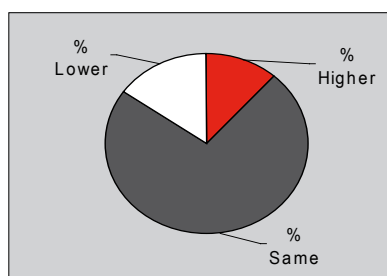
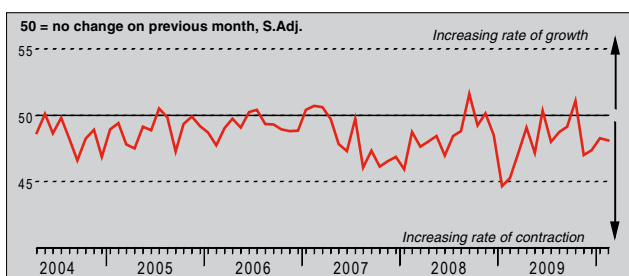
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Work-in-hand (but not yet completed) in the Chinese manufacturing sector rose again in February, with almost 17% of companies monitored by the survey reporting a rise from the preceding month. Although the rate at which backlogs were accumulated eased to the slowest since last July, it was still solid. Respondents widely commented that resources had been assigned to meet strong gains in new business instead of completing existing workloads.

Stocks of Finished Goods Index

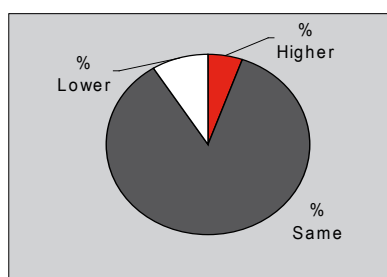
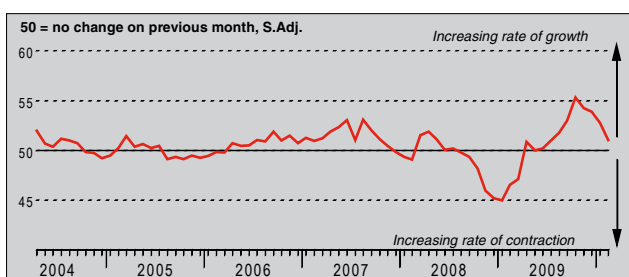
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories at Chinese manufacturers continued to decline in February, decreasing at a moderate rate that was broadly similar to that seen one month ago. Destocking has now been signalled in seven of the past eight months. Around 15% of firms reported a reduction of inventory levels, versus approximately 12% that noted a rise. Survey participants mentioned that greater inflows of new business relative to output growth had prompted firms to utilise stocks of post-production goods.

Employment Index

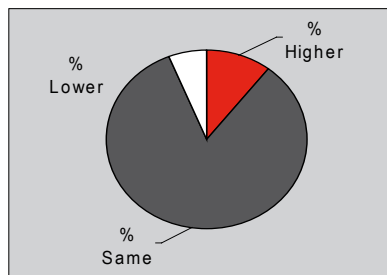
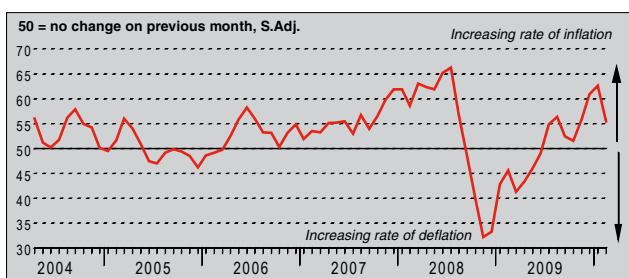
Q. Please compare the level of employment at your unit with the situation one month ago.



Latest data signalled that staffing levels in the Chinese manufacturing sector rose for the ninth consecutive month in February. However, the rate of job creation eased for the fourth successive month to its slowest since July last year. Employment growth mainly reflected further gains in new business and a subsequent rise in output requirements. There were also reports that firms had bolstered their employee numbers in line with business expansion plans.

Output Prices Index

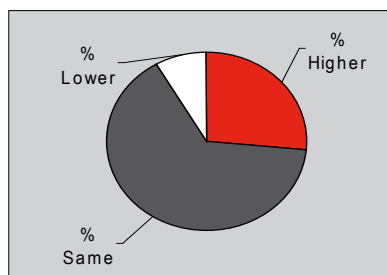
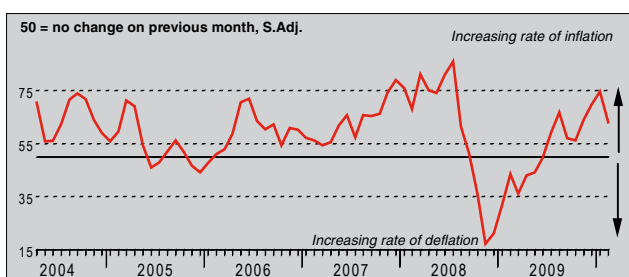
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index remained above the neutral level of 50.0 in February, pointing to a further rise in prices charged by Chinese manufacturing firms. Although the index fell sharply from January's eighteen-month high, it still pointed to a solid rate of output price inflation. Higher raw material prices were commonly cited by panel members as a key factor pushing charges higher. Nonetheless, some panellists reported reducing their output prices in an attempt to attract new business and gain market share.

Input Prices Index

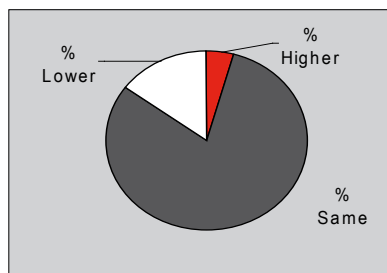
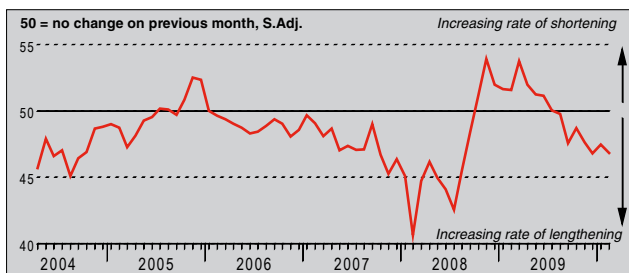
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Despite slipping to a four-month low, the seasonally adjusted Input Prices Index was still at a level indicative of a substantial rise in the average cost of Chinese manufacturers' purchases. Prices paid for aluminium, coal, oil, steel and zinc were all reported to have risen on the month. Survey responses also suggested that strong demand for inputs had strengthened suppliers' pricing power. Panellists noted that inflationary pressures emanated from both domestic and global sources in the latest survey period.

Suppliers' Delivery Times Index

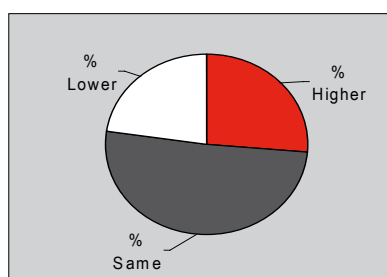
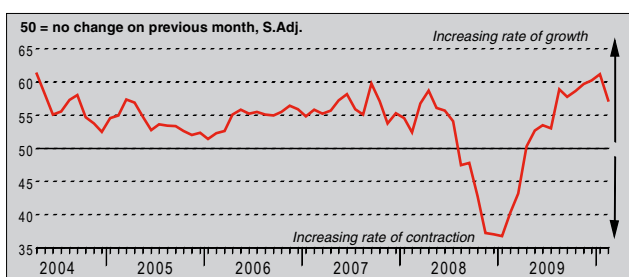
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



February data signalled that the average time taken by suppliers to deliver inputs to Chinese manufacturers lengthened at the second-fastest rate since August 2008. Slower lead times have now been indicated for seven successive months. Around 15% of panellists reported a deterioration in average vendor performance since January, against approximately 5% that signalled an improvement. Respondents widely commented that delivery delays reflected a combination of supply shortages at vendors and transportation difficulties.

Quantity of Purchases Index

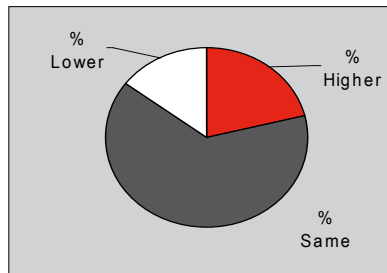
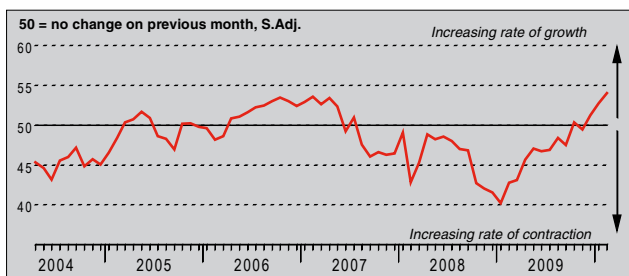
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity amongst Chinese manufacturers rose for the eleventh consecutive month in February. Despite easing from January's near-record, the rate at which firms purchased additional inputs was still marked, and much faster than the historical series average. Of those manufacturers that reported a rise in buying activity (around 26%), the majority attributed growth to stock accumulation policies in anticipation of strong sales in the near future.

Stocks of Purchases Index

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



Data signalled that inventories of raw materials and semi-manufactured goods continued to rise in February, largely as a result of strong purchasing growth. After adjusting for seasonal factors, the Stocks of Purchases Index rose to its highest level since the inception of the series in April 2004, pointing to a solid expansion of pre-production inventories at Chinese manufacturers. Stock holdings have now risen in four of the past five months.

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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