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HSBC China Manufacturing PMI

Output growth supported by near-record rise in new orders. Input price inflation remained substantial.

Key findings:

- Sharper rises in output and new orders.
- Export sales rose substantially.
- Faster deterioration in vendor performance.

The headline HSBC China Manufacturing PMI™ rose to its third-highest level in the survey history during March, pointing to a marked improvement of operating conditions in the Chinese manufacturing economy. For Q1 2010 as a whole, overall growth of the sector was the most marked since the start of the series in April 2004.

Behind March's PMI reading, the latest survey pointed to faster rises in both output and new orders, while the rate of job creation was the strongest recorded in three months. Pre-production inventories also rose providing further support to the PMI. Meanwhile, average vendor performance continued to deteriorate at a solid rate.

Manufacturing output rose again in March, extending the current period of growth to twelve months. The rate of expansion was substantial, and slightly faster than in the previous month. Those respondents that reported an increase in production often linked growth to buoyant client demand.

The level of new business taken by Chinese manufacturers continued to rise in March, increasing at the third-fastest rate in the series history. New business growth has now been maintained for twelve months in succession. Where an increase in new order intakes was signalled, respondents generally attributed this to greater demand from both external and domestic sources. There were also reports of new product launches. Export sales rose at a near-record pace in the final

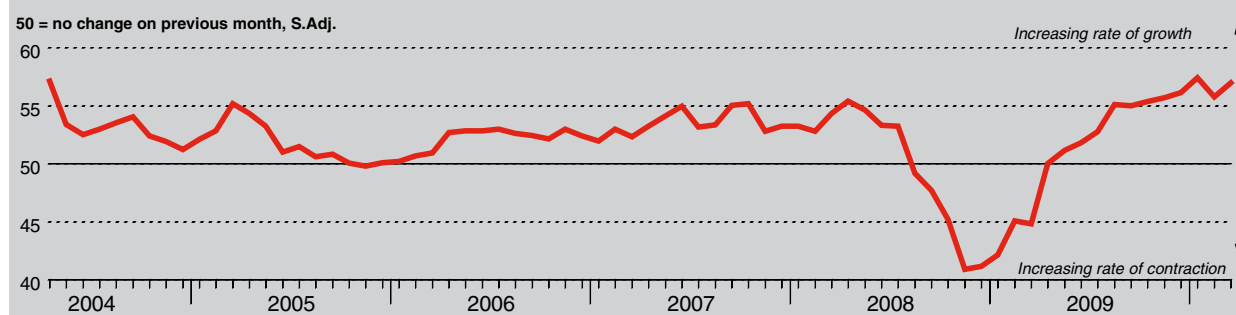
month of Q1 2010, largely as a result of ongoing economic recoveries in a number of China's key trading partners.

Backlogs were accumulated at a marked rate in March as manufacturers continued to find it increasingly difficult to complete both existing and new contracts. Meanwhile, staffing levels increased at a solid rate that was the fastest in three months. Business expansion plans and higher output requirements were cited by panellists as having supported employment growth.

Average input costs faced by Chinese manufacturers rose substantially in March. Anecdotal evidence suggested that inflation reflected rising prices for a range of raw materials, with oil and steel mentioned in particular. Subsequently, Chinese manufacturers reported raising their output prices in an attempt to maintain margins. However, increased competition meant that charges rose to a lesser extent than cost burdens, and at the slowest rate in five months.

Purchasing activity in the Chinese manufacturing sector rose again in March. Although still marked, the rate of expansion was the weakest since July last year. Nonetheless, average vendor performance deteriorated at the fastest rate in nineteen months, partly reflecting transportation difficulties. Increased purchasing meant that stocks were accumulated for the fourth consecutive month in March. Post-production inventories also rose in line with higher output volumes.

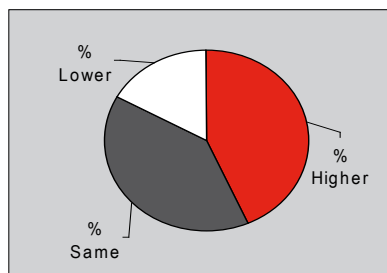
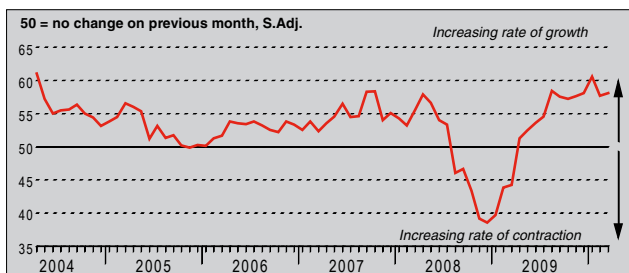
HSBC China Purchasing Managers' Index (PMI™)



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

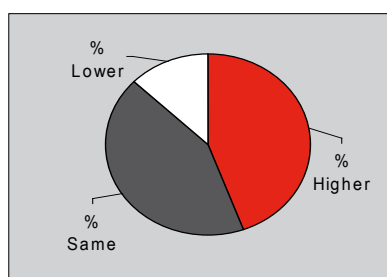
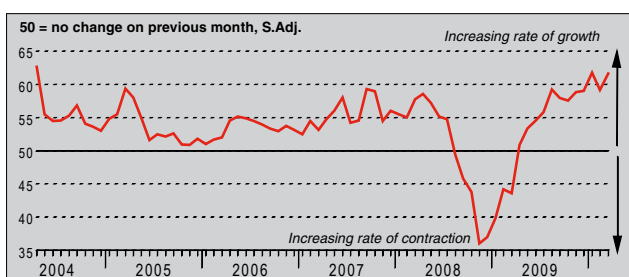
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in China rose substantially during March, with around 43% of the survey panel reporting an increase from one month previously. The average rate of expansion for Q1 2010 was the fastest in the survey history. Respondents widely commented that output growth, which has now been signalled for twelve successive months, was supported by greater inflows of new business from both domestic and external sources.

New Orders Index

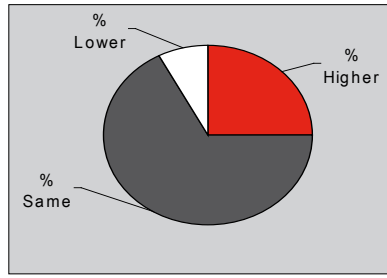
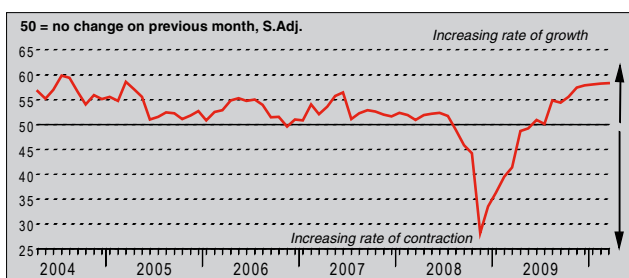
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



New orders received by Chinese manufacturing firms rose again in March, extending the current period of growth to twelve months. The rate of expansion accelerated to a near-record, only surpassed by that seen in January and in the first month of data collection. Firmer client demand, new product launches and the ongoing economic recovery were all cited as having supported new business growth. There were also reports that promotional activities had been successful in encouraging customer spending.

New Export Orders Index

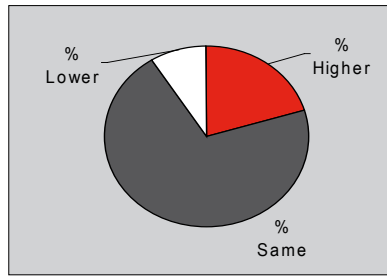
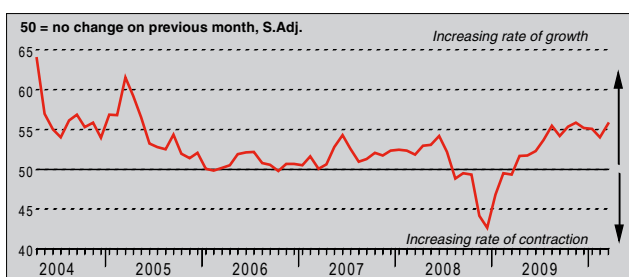
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The level of new export business taken by firms operating in the Chinese manufacturing sector rose in March, increasing at a sharp rate that was identical to that seen in the previous month. For Q1 as a whole, the rate of expansion was the fastest since Q3 2004. Foreign order levels have now risen for ten months in succession. Almost one-quarter of the survey panel reported an increase in export sales since February, which they generally attributed to rising demand from external sources.

Backlogs of Work Index

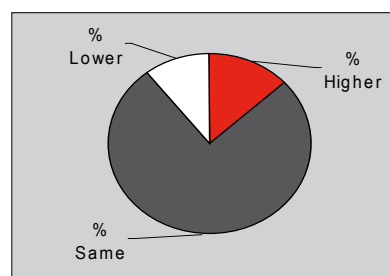
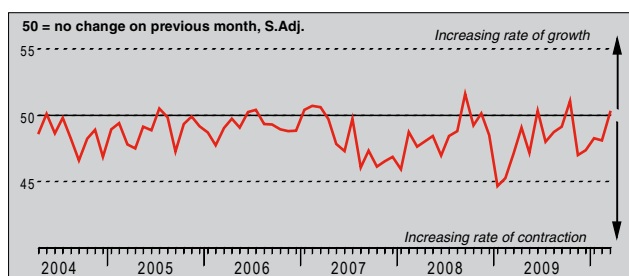
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index remained above the neutral 50.0 threshold in March, pointing to a further rise in outstanding business at Chinese manufacturers. The rate at which backlogs were accumulated was marked, and the fastest in four months. Respondents commented that a faster rise in new orders relative to output was the primary factor behind the latest increase in work-in-hand. Unfinished business has now risen in each of the past twelve months.

Stocks of Finished Goods Index

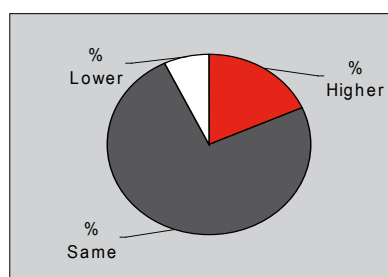
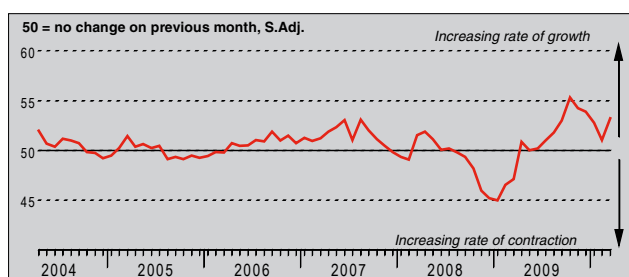
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Data indicated that post-production inventories at Chinese manufacturers rose in March, bringing to an end a period of destocking that had lasted for four months. However, the rate of stock accumulation was only slight. Approximately 13% of companies reported a rise in stock levels from the previous month, versus almost 11% that noted a decline. Where a rise in inventory holdings was signalled, panellists often linked this to rising production volumes.

Employment Index

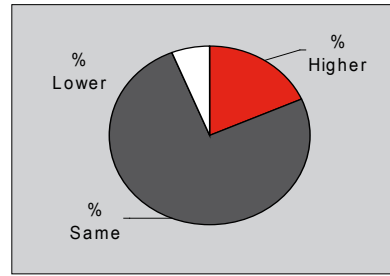
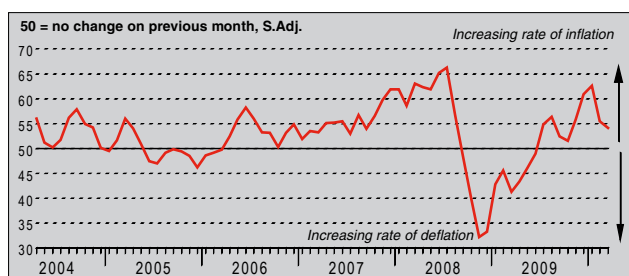
Q. Please compare the level of employment at your unit with the situation one month ago.



Staffing levels in the Chinese manufacturing sector continued to rise in March, with around 18% of respondents reporting an increase from one month earlier. This compared to 7% that signalled a reduction. The rate of job creation was solid, and faster than the series average. However, the average rate of growth for Q1 2010 was slower than in the previous quarter. Employment growth mainly reflected further gains in new work and business expansion plans. New product development also encouraged firms to hire additional staff in March.

Output Prices Index

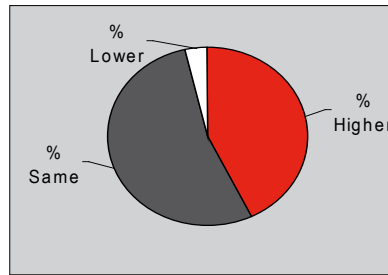
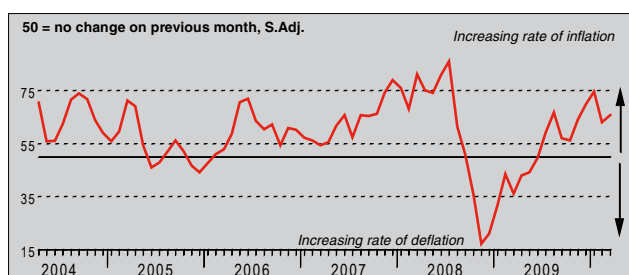
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



In line with the trend observed since last July, prices charged by Chinese service providers rose in March. Although much slower than that seen at the turn of the year, the rate of output price inflation was still solid and faster than the series average. According to respondents, higher output charges largely reflected the rising cost of purchases and buoyant client demand. Nonetheless, some companies reported reducing their factory gate prices in an attempt to attract new business.

Input Prices Index

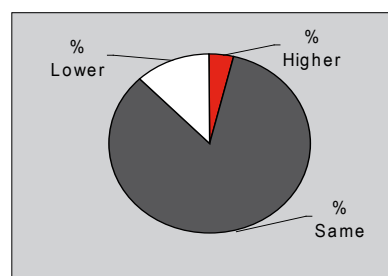
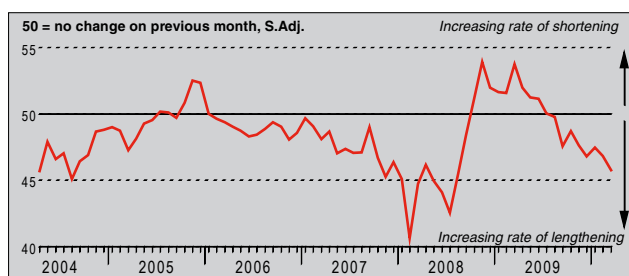
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input costs faced by Chinese manufacturing firms rose in March, increasing at a substantial rate that was slightly faster than in the previous month. Input price inflation has now been signalled in each of the past nine months. Panellists widely commented that higher prices paid for raw materials was the main driver of inflation, with steel and oil-related products mentioned in particular. Anecdotal evidence also suggested that inflation emanated from both domestic and external sources.

Suppliers' Delivery Times Index

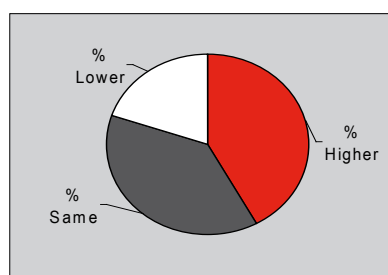
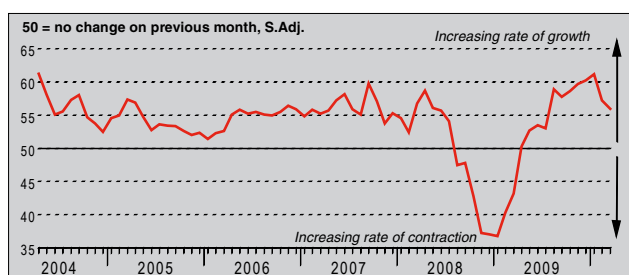
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



March data signalled that the average time taken by suppliers to deliver inputs to Chinese manufacturers lengthened at the fastest rate since August 2008. Slower delivery times have now been registered for eight successive months. Around 12% of firms reported a deterioration in average vendor performance, versus only 4% that indicated an improvement. Delivery delays were often linked to reduced supply at vendors and transportation difficulties.

Quantity of Purchases Index

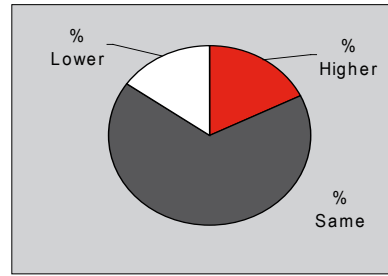
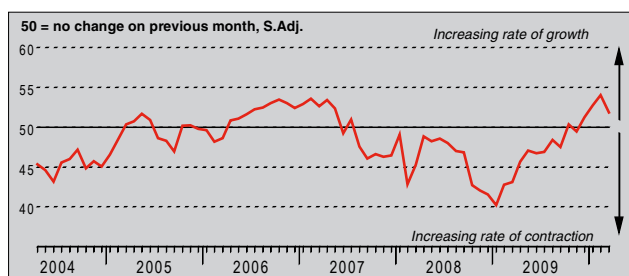
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Despite slipping to an eight-month low, the seasonally adjusted Quantity of Purchases Index was at a level indicative of a marked rise in buying activity among Chinese manufacturers. Purchasing growth has now been recorded in each of the past twelve months. Of those firms that reported an increase in input buying (almost 42%), the majority attributed growth to higher intakes of new business and a subsequent rise in production requirements.

Stocks of Purchases Index

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



Inventories of semi-manufactured goods and raw materials at Chinese manufacturers rose for the fourth month running in March, although the rate of stock accumulation was only modest and the slowest of 2010 so far. Where a rise in pre-production inventories was signalled, respondents generally attributed this to increased purchasing activity. There was also evidence that manufacturers had opted to stockpile goods in anticipation of higher purchase costs in the future.

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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