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HSBC China Manufacturing PMI™

PMI hit three-month high in August, as both output and new business returned to growth.

Key findings:

- Output rose for the first time in three months.
- Overall new business increased, but new export orders continued to fall.
- Average input costs rose markedly.

The seasonally adjusted headline HSBC China Manufacturing Purchasing Managers' Index™ (PMI™) rose to a three-month high of 51.9 in August, pointing to a moderate improvement in Chinese manufacturing sector operating conditions following a slight deterioration in the preceding month. Nonetheless, the index is still almost six points lower than the series-record high registered at the start of the year.

Chinese manufacturing output rose in August, ending a two-month period of contraction. Nonetheless, the rate of production growth was much slower than the near-record seen at the beginning of 2010. Where an increase in output was signalled, respondents commonly linked growth to greater inflows of new business, which rose for the first time in three months during August. The rate of new business growth was moderate, but slower than the long-run series average. Anecdotal evidence suggested that new business wins reflected stronger market demand and the success of promotional campaigns. However, the overall rise in new work centred on the domestic market, with new export business falling slightly for a third month in succession.

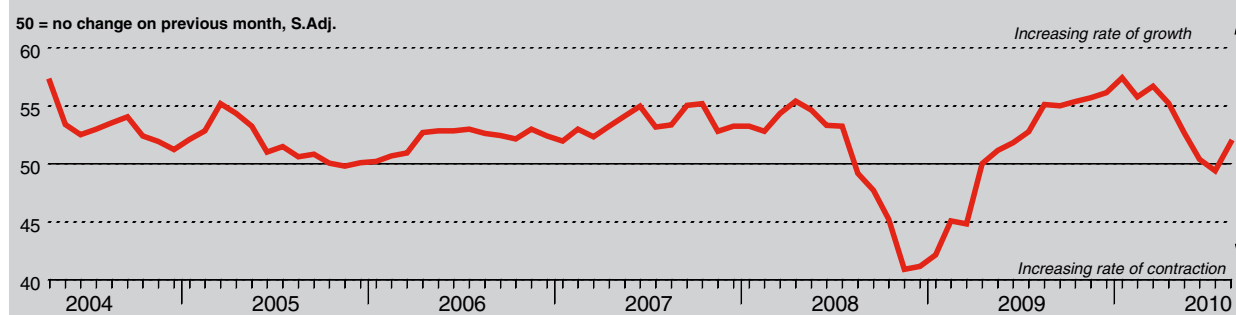
Manufacturing employment in China rose again during August, largely as a result of new business gains and increased graduate recruitment. However, the rate of job creation was only marginal, and the joint slowest since June 2009. Lacklustre employment growth primarily reflected the voluntary departure of staff, with

retirement and resignations due to low salary payments commonly cited by panellists.

Latest data indicated that average input costs faced by Chinese manufacturing firms increased in August, following two successive monthly reductions. The rate of input price inflation was marked, but slower than the long-run series average. Prices paid for steel (on domestic markets) and grain (on international markets) were reported as having risen on the month. Reflecting a combination of higher raw material prices and stronger client demand, manufacturers reported raising their output prices for the first time in three months during August. However, the pace of output price inflation was relatively subdued.

Renewed growth of new business and a subsequent rise in output requirements prompted firms to raise their input buying in August for a second successive month. Increased purchasing continued to increase pressure on supplier capacity, with lead times lengthening for the thirteenth month in a row. Slower delivery times were primarily linked by respondents to supply shortages at vendors. Regarding stocks, inventories of pre-production goods continued to fall in the latest survey period, with some firms reporting a preference for utilising existing stocks in production. Meanwhile, faster-than-expected sales meant that some manufacturers met new business wins through the reduction of finished goods holdings.

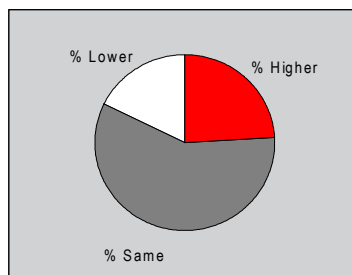
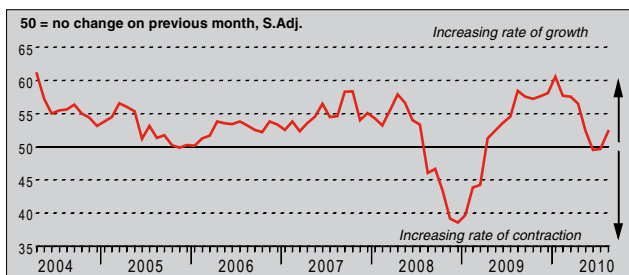
HSBC China Purchasing Managers' Index™ (PMI™)



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

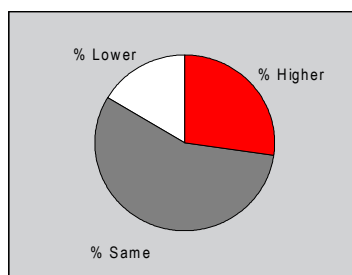
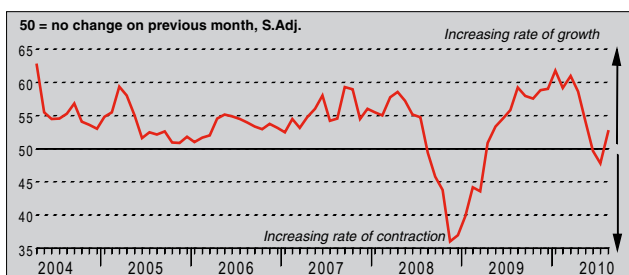
Q. Please compare your production/output this month with the situation one month ago.



After adjusting for seasonal variation, the Output Index rose above the neutral 50.0 threshold in August, pointing to the first monthly increase in Chinese manufacturing production since May. However, the rate of expansion was moderate, and slower than the long-run series average. Furthermore, the index is still over eight points down on the near-record high seen at the start of 2010. Of those manufacturers that reported a rise in output (exactly 24%), the majority attributed growth to higher intakes of new business.

New Orders Index

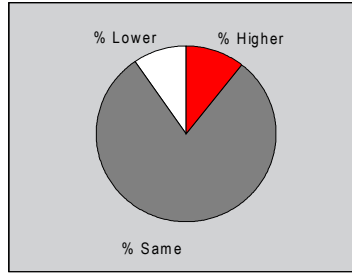
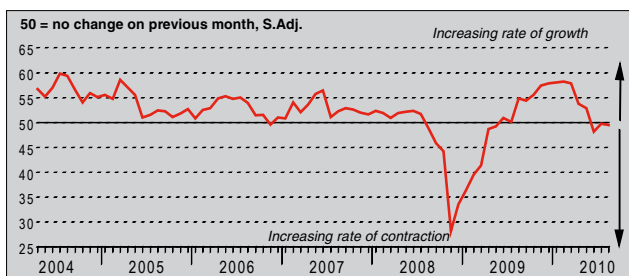
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



Similar to the trend for output, the level of new business taken by Chinese manufacturing firms rose moderately in August, following two successive months of contraction. Despite posting a strong monthly rise, the seasonally adjusted New Orders Index is eight points lower than the Q1 quarterly average. Anecdotal evidence suggested that new business growth reflected a combination of firmer market demand and the success of promotional campaigns.

New Export Orders Index

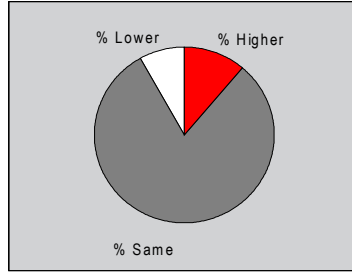
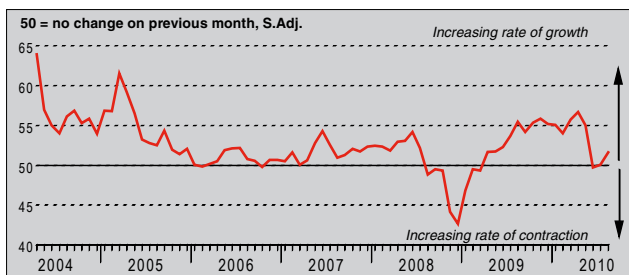
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the neutral 50.0 threshold in August, pointing to a further decline in new export business received by Chinese manufacturers. Although only marginal, the rate of decline contrasted with strong growth registered at the beginning of 2010. Those respondents that reported a drop in foreign order levels generally attributed this to softer demand from external markets. Some manufacturers also cited higher prices for their products as having reduced export competitiveness.

Backlogs of Work Index

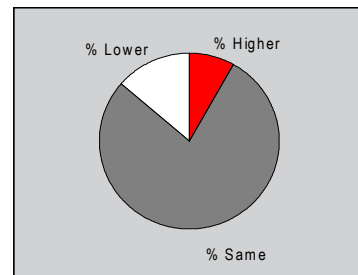
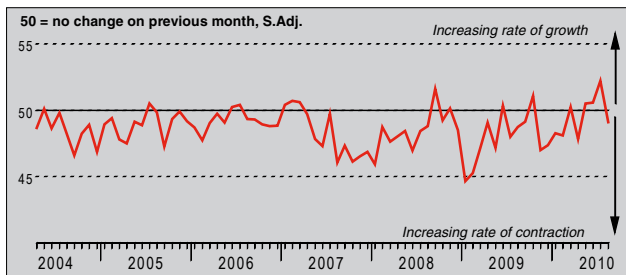
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Latest data signalled that backlogs of work in the Chinese manufacturing sector rose for a second successive month in August, with around 11% reporting an increase since the preceding month. This compared to approximately 8% that signalled a decrease. The rate at which backlogs were accumulated was the fastest in three months, but slower than the long-run series average. According to respondents, outstanding business growth primarily reflected greater inflows of new business.

Stocks of Finished Goods Index

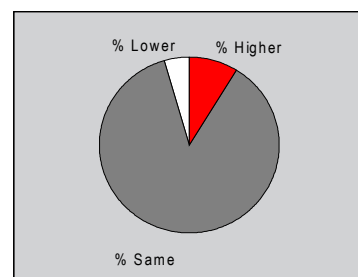
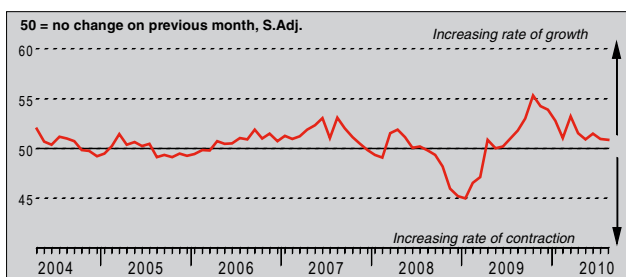
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods in the Chinese manufacturing sector fell in August, ending a three-month period of growth. The rate at which stock levels were reduced was marginal, and slightly slower than the long-run series average. Approximately 14% of the survey panel reported a decline in finished goods holdings from a month ago, compared to around 8% that signalled a rise. Where a decline in post-production inventories was indicated, this was commonly linked to stronger-than-expected sales.

Employment Index

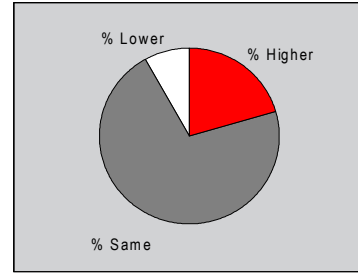
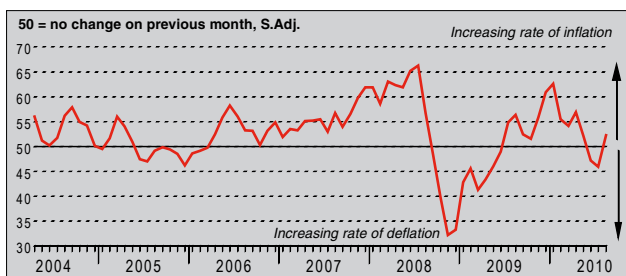
Q. Please compare the level of employment at your unit with the situation one month ago.



Chinese manufacturing employment rose for the fifteenth month running in August. However, the rate of job creation was only slight, and the joint slowest since June 2009. Employment growth was supported by new business wins and increased graduate recruitment. Those panellists that indicated a decrease in staffing levels mentioned that employees had left voluntarily, with retirement and resignations due to low salary payments commonly cited. There were also some reports that workers had found new employment positions.

Output Prices Index

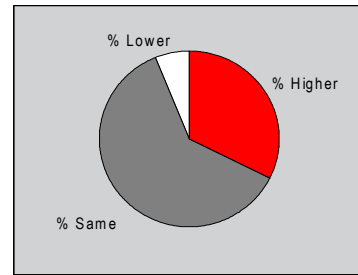
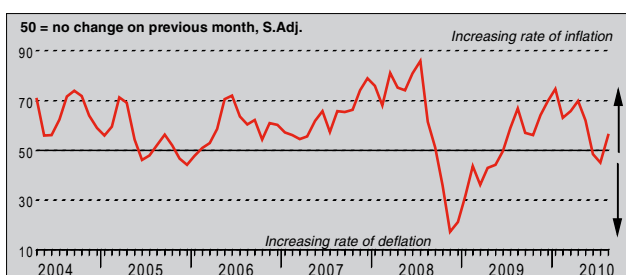
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



After adjusting for seasonal factors, the Output Prices Index rose above the neutral 50.0 threshold in August, pointing to the first monthly increase in factory gate charges since May. The rate at which firms raised their output prices was moderate, and slightly slower than the historical average for the series. Evidence provided by the survey panel suggested that inflation reflected a combination of higher prices paid for raw materials and stronger market demand.

Input Prices Index

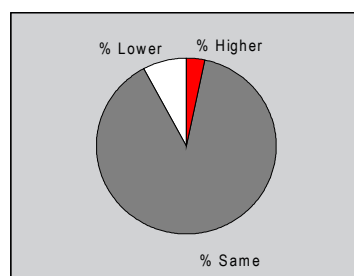
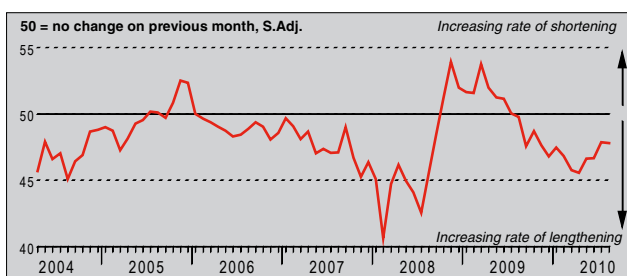
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index posted above the neutral 50.0 threshold for the first time in three months during August, rising over eleven points to a level indicative of a marked increase in average input costs. Higher prices paid for domestically sourced steel were cited by panellists as a key driver of inflation, particularly in the Basic Metals sector. A number of firms also mentioned that the cost of grain on international markets had risen since the preceding month.

Suppliers' Delivery Times Index

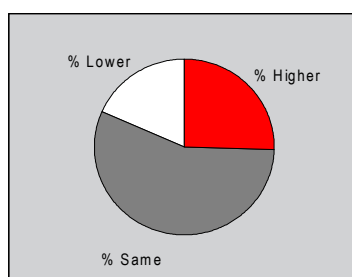
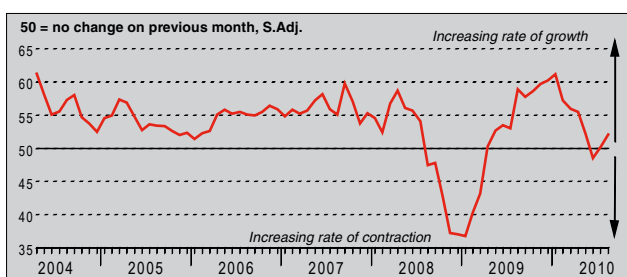
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by vendors to deliver goods to Chinese manufacturers lengthened in August, with almost 8% of companies reporting slower lead times compared to the previous month. The rate of deterioration in vendor performance was modest, and fractionally faster than in the preceding month. Companies commented that slower delivery times primarily reflected supply shortages at vendors. Transportation difficulties were also mentioned by a number of respondents.

Quantity of Purchases Index

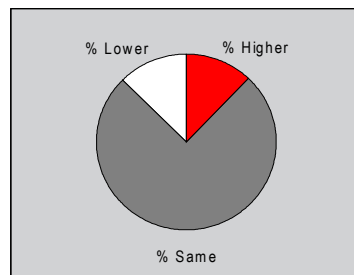
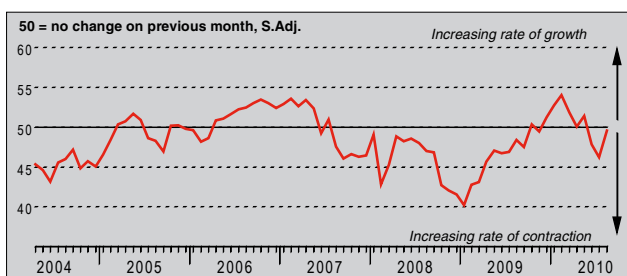
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Chinese manufacturing sector rose for the second successive month in August. Despite accelerating to the fastest in three months, the rate at which firms acquired inputs was only modest. Almost 26% of the survey panel reported a rise in buying activity since July, versus around 18% that signalled a decrease. Survey respondents generally reported that a greater volume of raw materials was required in order for production to be increased following renewed growth of new business.

Stocks of Purchases Index

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



Stocks of raw materials and semi-manufactured goods in the Chinese manufacturing sector fell further in August. However, the rate at which stock levels were depleted was only slight, and the slowest in the current three-month period of destocking. Those respondents that reported a fall in pre-production inventories often linked this to stock rationalisation policies aimed at utilising existing inventories in production. Where a rise in inventory holdings was signalled, this was often linked to increased 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: 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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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