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HSBC Purchasing Managers' Index™ Press Release

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HSBC China Manufacturing PMI™

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

Summary

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.

Comment

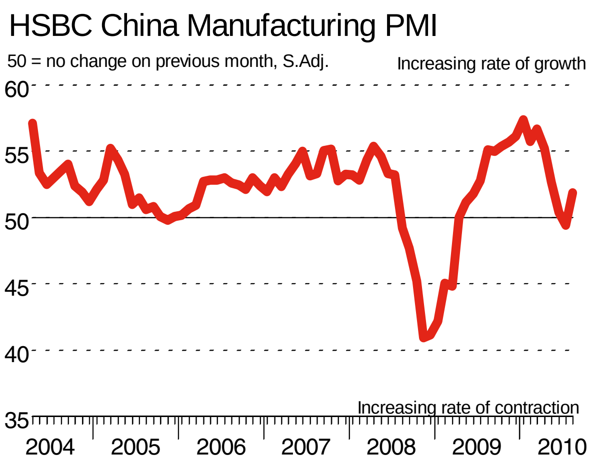
Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The headline HSBC China Manufacturing PMI retuned to expansionary territory at a three-month high of 51.9, from 49.4 one month previously. This reconfirmed our long-held view that China is moderating rather than melting down. Domestic demand will be resilient to uphold around 9% GDP growth in 2H and 2011, while external demand is more likely to turn worse in the coming months."

Key points

- 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.

Historical Overview



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Notes to Editors:

The HSBC China Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading, global financial information services company with over 1,900 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.