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HSBC China Manufacturing PMI™

PMI hit five-month high in September, supported by faster rises in production and new business.

Key findings:

- New export business rose for the first time in four months.
- Marginal increase in manufacturing employment.
- Input price inflation accelerated markedly.

At 52.9, up from 51.9 in August, the seasonally adjusted headline HSBC Purchasing Managers' Index™ (PMI™) pointed to a moderate improvement in Chinese manufacturing sector operating conditions that was the strongest in five months. The index has climbed over three points since posting below the neutral 50.0 threshold in July, suggesting that growth momentum in the sector continued to build during the latest survey period.

Behind the latest PMI reading, September's survey pointed to faster increases in production and new business. Staff numbers rose only marginally, while supplier delivery times lengthened to the greatest extent since April. Meanwhile, stock of purchases fell for the fourth month in succession.

Manufacturing production in China rose further during the latest survey period. The rate of expansion was moderate, and slightly faster than the long-run series average. Where a rise in output was signalled, panellists primarily attributed growth to greater inflows of new business, which rose for the second month in a row. The rate of new business growth was solid, but contrasted with strong rates seen throughout Q1 2010. Anecdotal evidence suggested that the latest expansion was supported by stronger market demand. New export business rose in September, ending a three-month period of decline. However, the rate of growth was only marginal.

Staff numbers continued to rise in September, although the rate

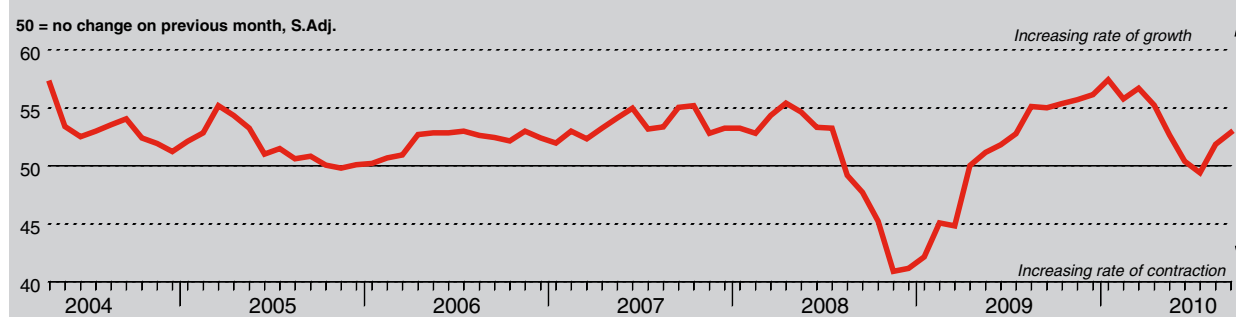
of job creation was only slight. Where a rise in employment was signalled, panellists attributed growth to increased new business wins. However, this was partly offset by reports of employee resignations and retirements.

Average input costs rose substantially in September, with the rate of inflation accelerating steeply since the preceding month. Respondents frequently cited higher raw material prices as the main driver of inflation, with steel mentioned in particular. As a result, manufacturers raised their output prices on average in an attempt to maintain operating margins. The rate of output price inflation was sharp, and the fastest in eight months. The latest increase was the second in as many months.

Purchasing activity rose solidly in September, largely reflective of further gains in new business and a subsequent rise in production requirements. The latest increase, which extends the current period of growth to three months, was the fastest since April. Subsequently, average vendor performance deteriorated to the greatest extent in five months, with panellists citing supply shortages at vendors as having negatively impacted upon delivery schedules.

Considering stocks, both inventories of finished goods and purchases fell marginally in the latest survey period. According to respondents, the decline in the latter reflected stock rationalisation policies aimed at utilising existing inventories in production.

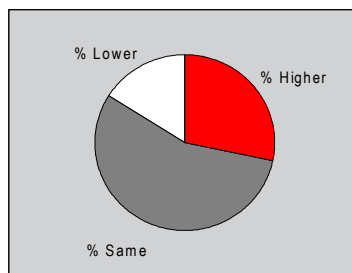
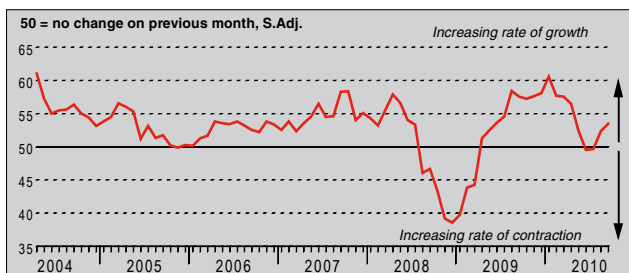
HSBC China Purchasing Managers' Index™ (PMI™)



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

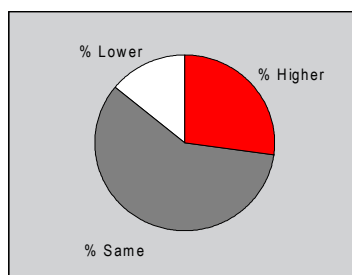
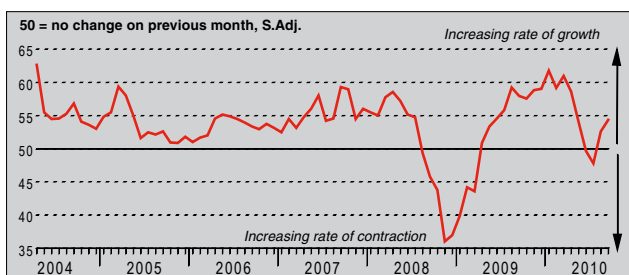
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index remained above the neutral 50.0 threshold for the second successive month in September, pointing to a moderate rise in Chinese manufacturing production that was the most marked in five months. Although slightly faster than the long-run series average, the rate of expansion was weaker than the near-record seen at the start of the year. Anecdotal evidence suggested that output growth principally reflected greater inflows of new business.

New Orders Index

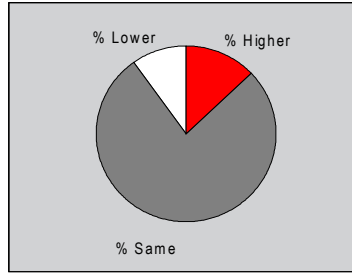
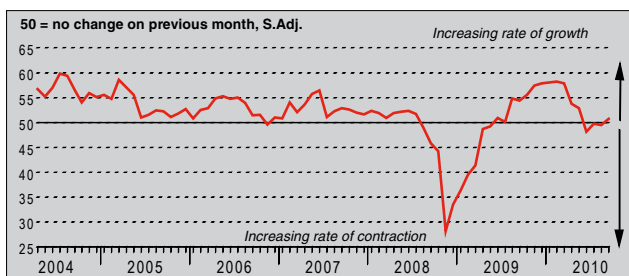
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



The level of new business received by Chinese manufacturing firms rose for a second successive month in September, with approximately 27% of companies reporting an increase since August. This compared to 14% that signalled a decrease. Despite accelerating to the sharpest since April, the rate of total new business growth was slightly slower than the long-run series average. Where an increase in new work was signalled, panellists generally attributed growth to firmer client demand.

New Export Orders Index

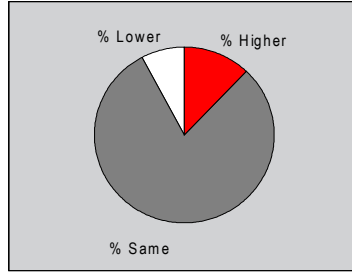
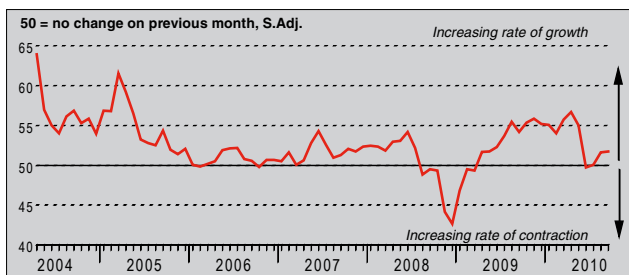
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index rose above the neutral level of 50.0 in September, signalling a rise in new export business at Chinese manufacturers for the first time in four months. Nonetheless, the rate of expansion was only slight, and slower than both the historical average for the series and growth seen at the beginning of the year. Panellists widely commented that the subdued increase of new export business reflected lacklustre demand from external markets.

Backlogs of Work Index

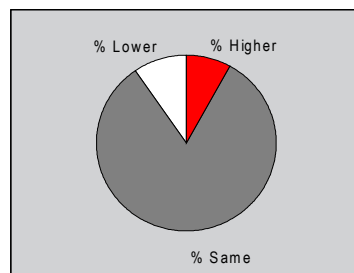
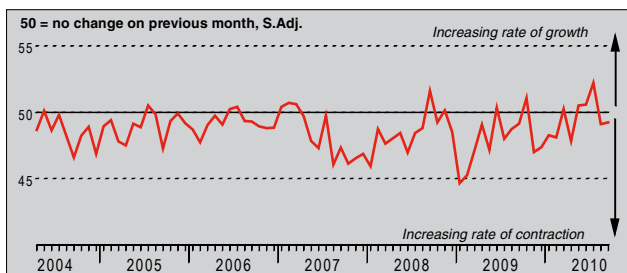
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at Chinese manufacturing firms rose further in September. Despite quickening to the fastest in four months, the rate at which backlogs of work were accumulated was only modest, and slower than the long-run series average. Work-in-hand has now risen for three successive months. Anecdotal evidence suggested that the latest accumulation reflected a greater number of new business wins and a corresponding rise in capacity pressures at firms' units.

Stocks of Finished Goods Index

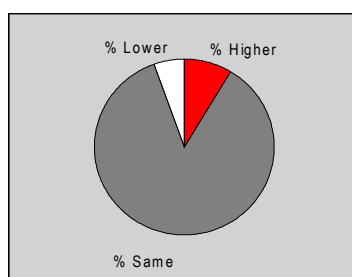
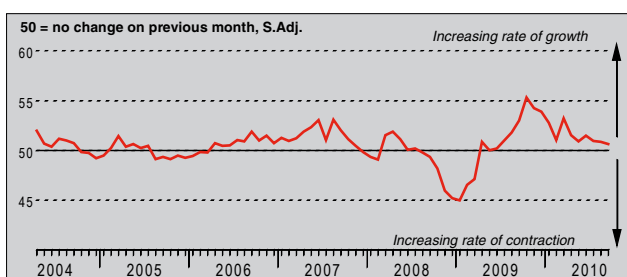
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods in the Chinese manufacturing sector fell for a second successive month in September. However, the rate of stock depletion was only marginal, with the vast majority of panellists (around 82%) reporting that inventory holdings were unchanged since the preceding month. Furthermore, the latest decrease was slower than the long-run series average. Evidence provided by the survey panel suggested that destocking primarily reflected stronger-than-expected sales.

Employment Index

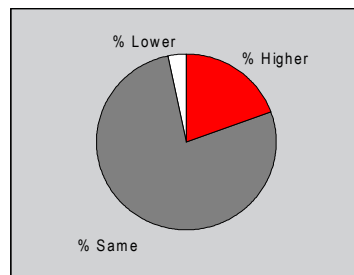
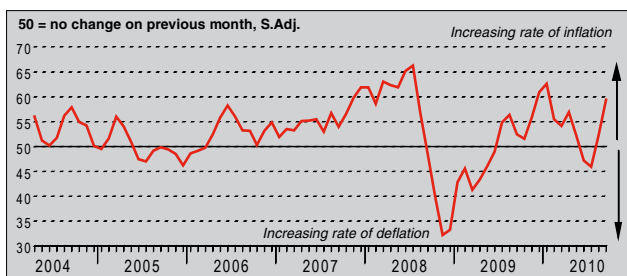
Q. Please compare the level of employment at your unit with the situation one month ago.



Chinese manufacturing employment continued to rise in September, with the seasonally adjusted Employment Index posting above the neutral 50.0 threshold for the sixteenth successive month. Nonetheless, the rate at which firms added to their workforce numbers was only slight, and eased to the slowest since June 2009. Panellists reported that employment growth reflected increased new business wins. Where a decline in staff numbers was indicated, firms commonly linked this to an increased number of employee resignations and retirements.

Output Prices Index

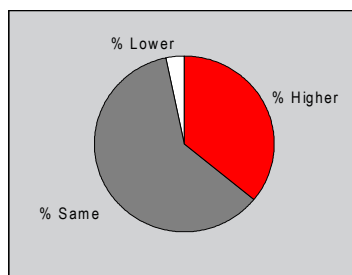
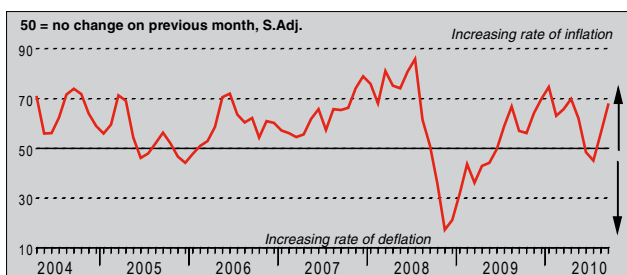
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index soared to an eight-month high in September, pointing to a substantial rise in factory gate prices set by Chinese manufacturing firms. Furthermore, the month-on-month rise in the index was one of the largest in the series history. Survey participants overwhelmingly cited higher raw material prices as the main factor driving inflation, as firms passed on higher costs in an attempt to maintain operating margins. September marked the second successive month in which output price inflation has been recorded.

Input Prices Index

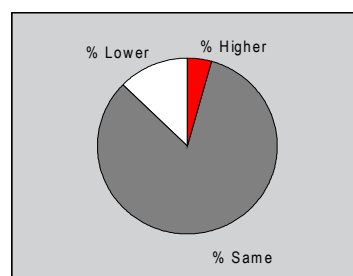
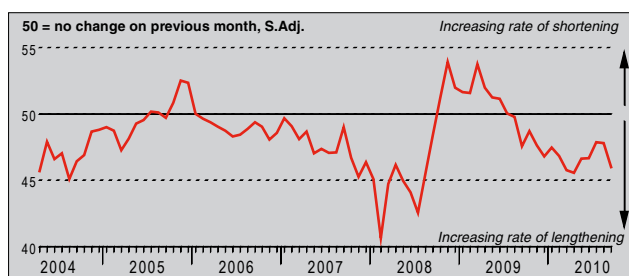
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input costs rose substantially in September, with almost 36% of the survey panel reporting a rise since the preceding month. In comparison, only 3% signalled a decline. The seasonally adjusted Input Prices Index has climbed almost twenty-three points from July's recent low, suggesting that cost pressures are growing rapidly. Prices paid for copper and steel were reported as having risen in cost since August. Some panellists also cited supply shortages as having led purchasing costs higher.

Suppliers' Delivery Times Index

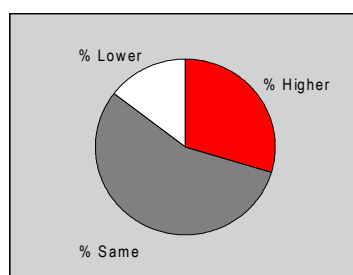
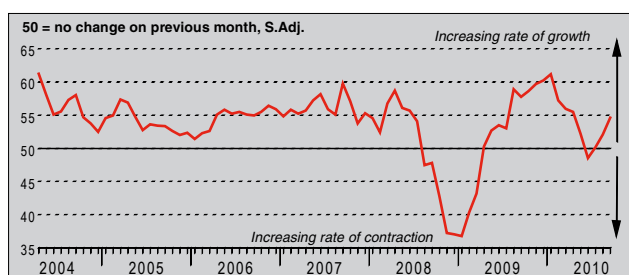
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by suppliers to deliver inputs to Chinese manufacturing firms lengthened for the fourteenth successive month in September. The rate at which supplier performance deteriorated was marked, and quickened to the fastest since April. Slower lead times were signalled by almost 13% of the survey panel, compared to around 4% that recorded an improvement in vendor performance. Stock shortages at suppliers was the overwhelming reason cited by respondents for the lengthening of delivery times.

Quantity of Purchases Index

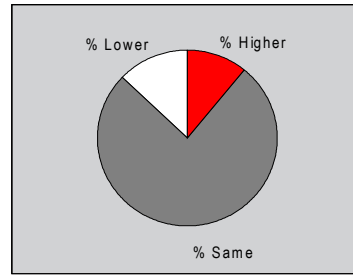
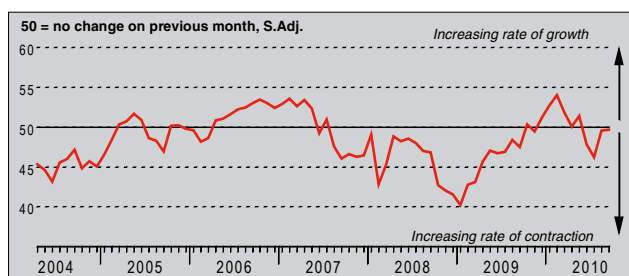
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



According to the latest data, purchasing activity at Chinese manufacturing firms rose further in September, and at a solid rate that was the fastest since April. The latest increase, which extends the current period of expansion to three months, was slightly faster than the long-run series average. Where a rise in input buying was signalled, survey participants often linked growth to solid new business gains and a subsequent increase in production requirements.

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 in September. However, the rate at which stock levels were depleted was only marginal, and eased to the slowest in the current four-month period of decline. Those respondents that reported a decline in pre-production inventories often linked this to stock rationalisation policies aimed at utilising existing inventories in production. Where an increase in inventory holdings was indicated, this was generally attributed by panellists 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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