

Embargoed until: 10:30 (BEIJING), 1 April 2011

HSBC China Manufacturing PMI™

Manufacturing output rose at stronger rate, but underlying growth trend remained moderate. Price pressures ease.

Key findings:

- New order growth down to eight-month low.
- Cost inflation cools to slowest since August 2010.
- Average vendor performance deteriorates, albeit at slowest rate for seven months.

After adjusting for seasonal variation, the headline HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – held relatively steady in March, rising fractionally from 51.7 to 51.8, a level indicative of a moderate improvement in manufacturing sector business conditions. The index reading was below the long-run series average (52.3).

Chinese manufacturing production continued to rise in March, although the pace of expansion remained muted in the context of historical data. Output growth, which has now been signalled for eight months in a row, was much slower than observed throughout Q4 2010, but still registered an improvement on the preceding month.

The relatively subdued expansion of manufacturing output was primarily linked by respondents to a weaker rise in new business, which grew at the slowest pace in the current eight-month period of expansion. Moreover, new export business increased only slightly in March, following a fall one month earlier. New orders received from abroad have now risen in six of the past seven months.

Despite a further slowdown in total new order growth, backlogs of work continued to increase markedly, with the rate of accumulation accelerating to the most pronounced since May 2010. The latest expansion extends the current period of growth

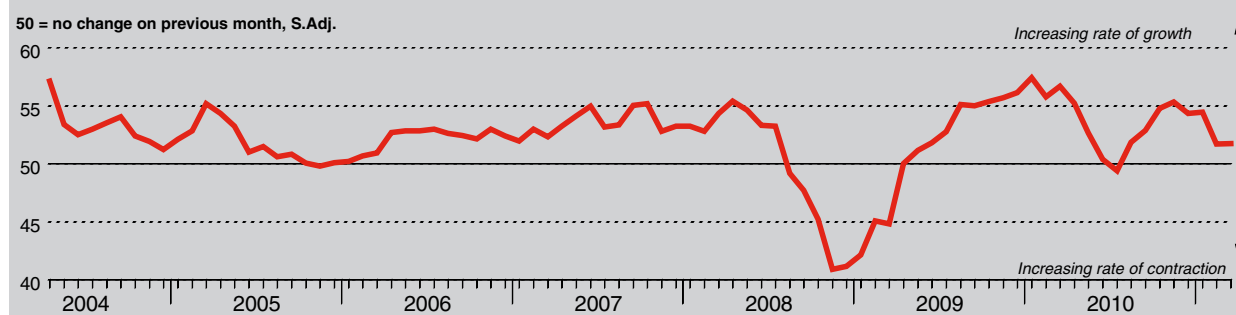
to nine months.

Employee numbers rose in March, following a marginal fall in the preceding month. Nonetheless, the rate of job creation was only slight. Where a rise in employment was signalled, respondents linked growth to higher output requirements. Manufacturers that reported a fall in staff numbers attributed this to employee retirements and resignations. Some companies reported that a shortage of available labour had made recruitment increasingly difficult over the month.

Purchasing activity rose solidly in March, although the pace of expansion was the second-slowest since August 2010, and weaker than the long-run series average. Consequently, stocks of purchases fell for a third successive month, and average vendor performance deteriorated at the slowest rate since August 2008. Where longer lead times were recorded, survey respondents cited supply shortages at vendors and, in some cases, transportation difficulties.

The rate of purchase price inflation in the manufacturing sector eased markedly since February, but remained strong nonetheless. Prices paid for copper, oil and food products were reported as having risen from one month ago. According to respondents, cost pressures emanated from domestic markets. Manufacturers raised their output prices accordingly in March, although the rate of inflation mirrored that of input costs by cooling to a seven-month low.

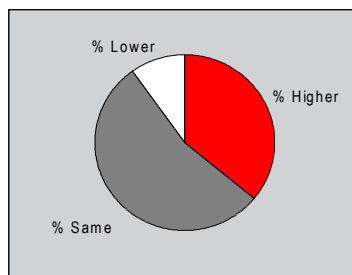
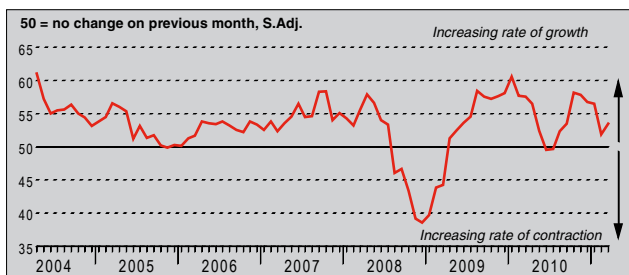
HSBC China Purchasing Managers' Index™ (PMI™)



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

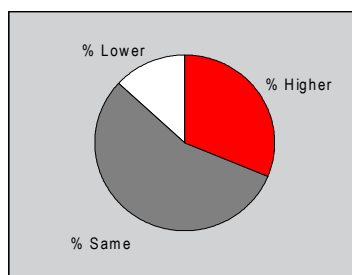
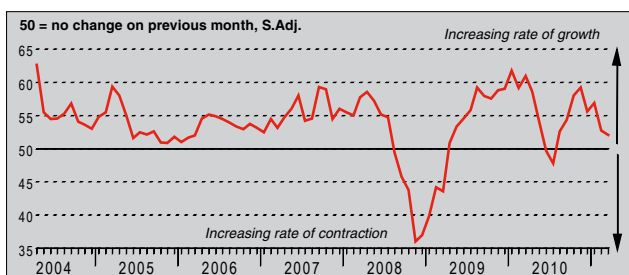
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in China continued to increase during March, with the rate of expansion accelerating from one month ago. Nonetheless, overall growth was markedly down on the Q4 2010 average. The relatively subdued expansion of manufacturing output was primarily linked by respondents to a weaker rise in new business. March's increase in output stretches the current period of growth to eight months.

New Orders Index

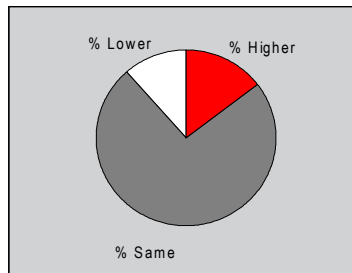
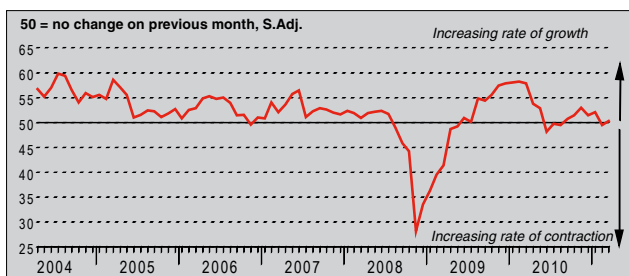
Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.



A further rise in new orders received by Chinese manufacturing firms was recorded in March, although the rate of growth eased for the second straight month to the slowest in the current period of expansion, which now extends to eight months. Moreover, the latest increase was below the long-run trend. Anecdotal evidence provided by the survey panel suggested that the slowdown in new order growth reflected softer market demand.

New Export Orders Index

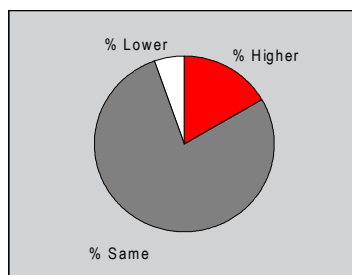
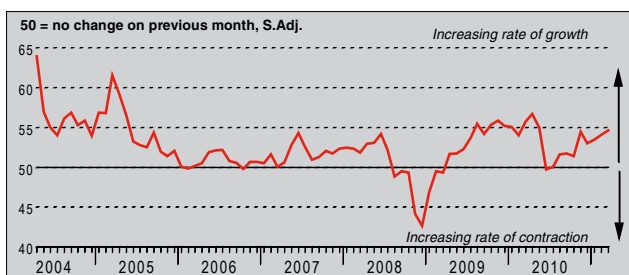
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The level of incoming new export orders received by Chinese manufacturers rose in March, following a decline in the preceding month. However, the pace of expansion was only marginal, and slower than the long-run series average. Volumes of new work from abroad have now risen in six of the past seven months. Panellists widely commented that the subdued increase of new export business reflected relatively lacklustre demand from external markets.

Backlogs of Work Index

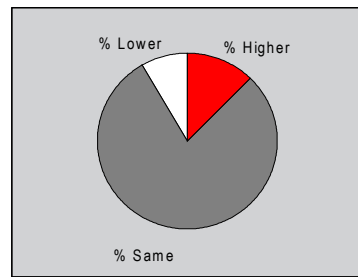
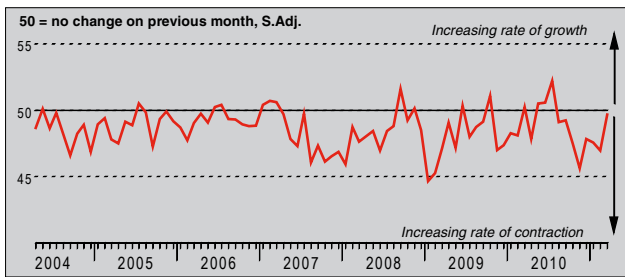
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Despite a further slowdown in new order growth, outstanding business in the Chinese manufacturing sector rose during March, with the rate of accumulation accelerating to the fastest since May 2010. Almost 17% of panellists reported an increase in unfinished work compared to the preceding month, versus 5% that recorded a reduction. The seasonally adjusted Backlogs of Work Index has now posted above the neutral level of 50.0 for nine months in succession.

Stocks of Finished Goods Index

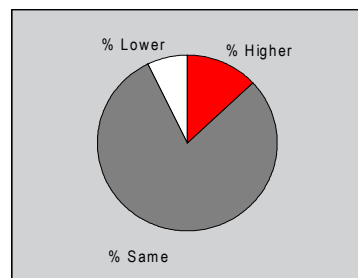
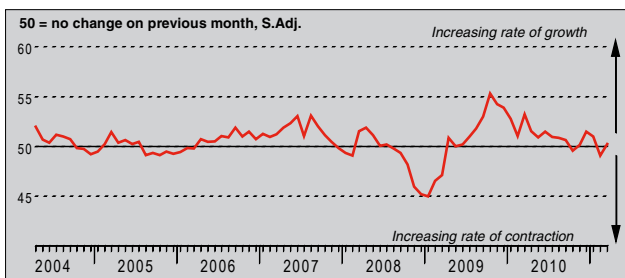
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



After adjusting for seasonal variation, the Stocks of Finished Goods Index posted below the neutral 50.0 threshold in March, signalling a further reduction in post-production inventories across the manufacturing industry. However, the index was at a level indicative of only a marginal rate of stock depletion, with the latest decrease the slowest in the current eight-month period of decline. This primarily reflected a further moderation of new order growth.

Employment Index

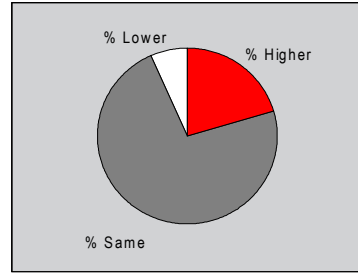
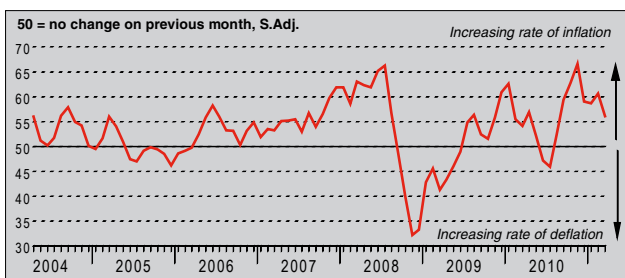
Q. Please compare the level of employment at your unit with the situation one month ago.



Employee numbers rose in March, following a marginal fall in the preceding month. However, the rate of job creation was only slight, with the majority of panellists (almost 80%) reporting that their staffing levels were unchanged since February. Where a rise in employment was signalled, respondents linked growth to higher output requirements. Manufacturers that reported a fall in staff numbers attributed this to a combination of employee retirements and resignations. Some firms reported that a shortage of available labour had made recruitment increasingly difficult.

Output Prices Index

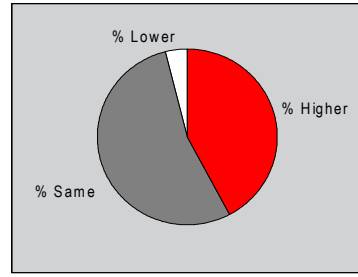
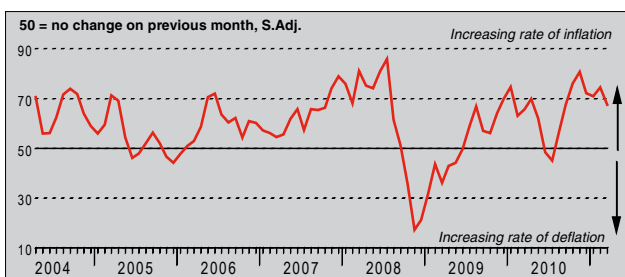
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Chinese manufacturing firms rose markedly in March, with the seasonally adjusted Output Prices Index posting above the neutral 50.0 threshold for the eighth month in succession. Despite easing to the weakest since August 2010, the rate of factory gate charge inflation was stronger than the long-run trend. Higher charges were widely attributed to the need to rebuild operating margins in the face of sharply rising input costs.

Input Prices Index

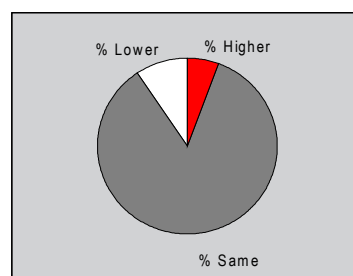
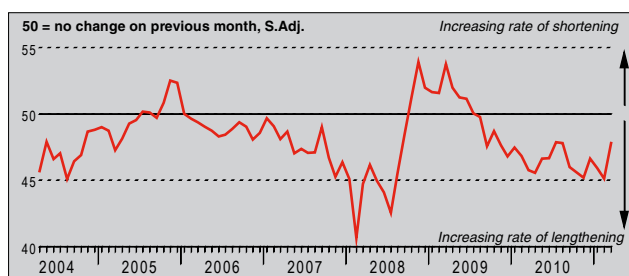
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index signalled that purchase costs faced by firms operating in the Chinese manufacturing sector rose sharply in March, although the rate of inflation eased markedly to the slowest since August 2010. Greater cost burdens have now been signalled for eight months in a row. Higher raw material and fuel prices were cited as key drivers of inflation in the latest survey period. Copper and food products were both reported as having risen in cost since February.

Suppliers' Delivery Times Index

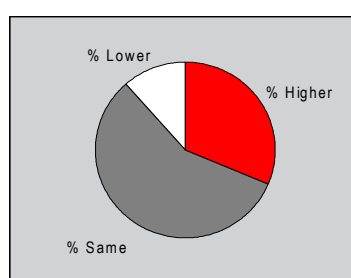
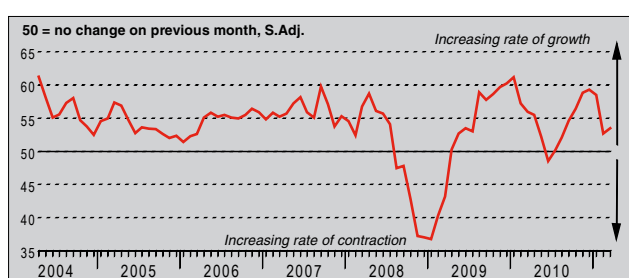
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



March data signalled that the average time taken by suppliers to deliver inputs to Chinese manufacturers lengthened for the twentieth month in a row, largely as a result of supply shortages at vendors. There were also reports that transportation problems and a lack of labour had restricted the ability of some suppliers to meet delivery schedules. However, the extent to which average vendor performance deteriorated was the slowest in seven months.

Quantity of Purchases Index

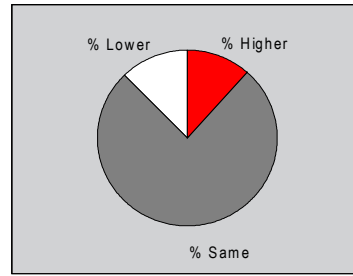
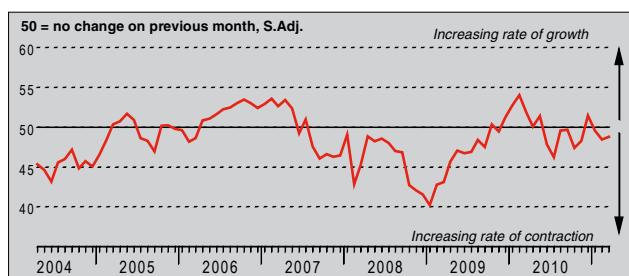
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



After adjusting for seasonal factors, the Quantity of Purchases Index signalled a solid rise in purchasing activity in the Chinese manufacturing sector, extending the current period of expansion to nine months. Despite rising since the preceding month, the index was still five points lower than that seen at the start of 2011, and signalled a rate of expansion that was slower than the long-run series average. According to respondents, the subdued increase in purchasing predominantly reflected a further slowdown in overall new order growth.

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 continued to decline in March, with the seasonally adjusted Stocks of Purchases Index at a level indicative of a modest rate of depletion. The index has now posted below the neutral 50.0 threshold for three successive months. Of those firms that recorded a fall in inventory levels (around 12%), the majority attributed this to relatively lacklustre growth of purchasing. Some firms also mentioned that destocking reflected delays in the supply chain.

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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