Embargoed until: 10:30 (BEIJING), 29 April 2011

HSBC China Manufacturing PMI™

Manufacturing output growth slows to nine-month low in April. Price pressures continue to ease.

Key findings:

- New order growth below long-run trend.
- Purchase price inflation eases to eight-month low.
- Fastest rate of jobs growth in 2011 so far.

After adjusting for seasonal factors, the headline HSBC Purchasing' Managers Index™ (PMI™) held steady at 51.8 in April, in line with the earlier flash estimate and signalling a moderate improvement in Chinese manufacturing sector operating conditions. However, the latest index reading was down on the long-run series average of 52.3.

April's survey pointed to relatively lacklustre growth of new business and a slower expansion in manufacturing production. Despite this, firms added to their workforce numbers at the fastest rate since last December. Meanwhile, companies continued to reduce their stocks of purchases, partly in an attempt to mitigate against delays in the supply chain.

Manufacturing production continued to rise in April, although the rate of expansion eased to the slowest in the current period of growth, which now extends to nine months. According to survey respondents, the weaker increase in output predominately reflected a subdued rate of new order growth, which was again slower than the long-run trend despite quickening from one month earlier. Anecdotal evidence provided by the survey panel suggested that below par growth reflected relatively soft market demand. Furthermore, only a marginal rise in new export orders was recorded during April.

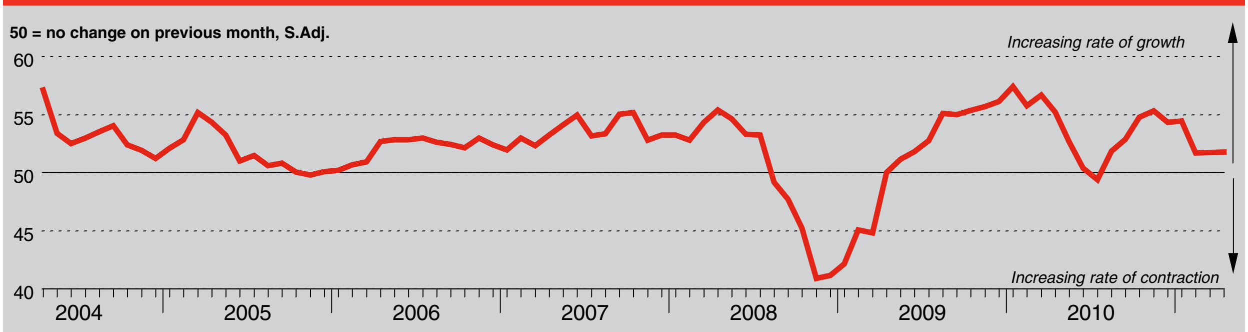
Outstanding business in the Chinese manufacturing sector increased again in April, extending the current period of expansion to ten months. However, the rate of backlog accumulation was the slowest since last October.

A further increase in manufacturing employment was registered during April. Although only modest, the pace of job creation was the fastest in 2011 so far. Where a rise in staff numbers was signalled, panellists commonly attributed growth to higher output requirements.

Slower growth of output was reflected in companies' purchasing decisions in April. The quantity of inputs bought by Chinese manufacturing firms increased at the weakest rate in nine months. Stocks of purchases decreased moderately, and at the fastest rate since last October, amid delays in the receipt of purchased items. Supply chain problems were highlighted by a further lengthening of average supplier lead times, which was largely attributed by respondents to stock shortage at vendors. The recent earthquake in Japan was also reported to have contributed to delays.

The rate of input cost inflation in the Chinese manufacturing sector moderated to an eight-month low in April, but remained strong nonetheless. Rising raw material prices were cited as the key driver of inflation, with steel mentioned in particular. A number of panellists also mentioned higher oil prices. Firms attempted to offset part of the rise in purchasing costs by raising their prices charged to customers. However, similar to the trend in input costs, the pace of inflation eased to the slowest for eight months.

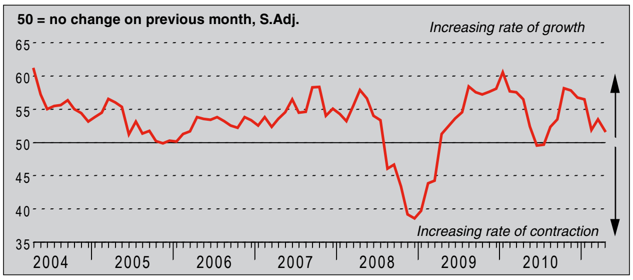
HSBC China Purchasing Managers' Index™ (PMI™)

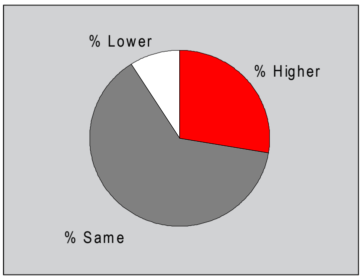


The HSBC China Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new 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.

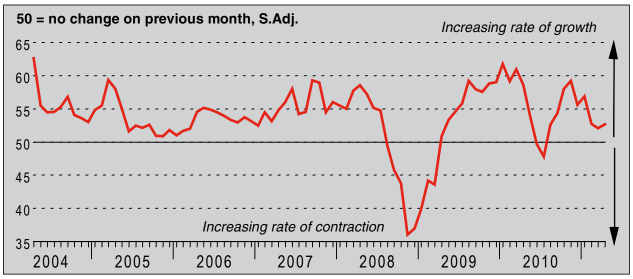


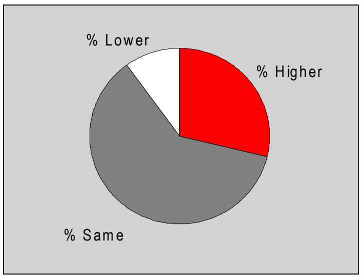


April data pointed to another rise in Chinese manufacturing production, with the seasonally adjusted Output Index posting above the neutral 50.0 threshold for the ninth month in succession. However, the index was at a level indicative of only a modest rate of expansion. Moreover, the latest increase was slower than the long-run series average. A weaker rise in manufacturing output predominantly reflected relatively lacklustre growth of incoming 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.

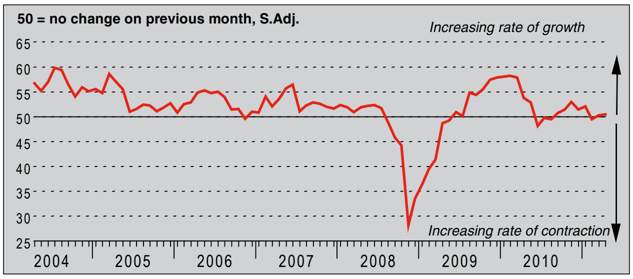


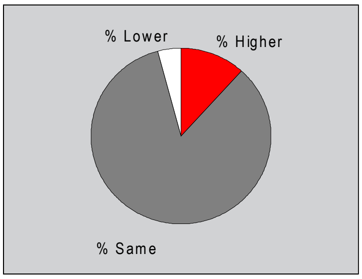


The seasonally adjusted New Orders Index posted above the 50.0 no-change mark in April, signalling a moderate rise in new business received by Chinese manufacturing firms. Despite accelerating since March, the pace of expansion was slower than the long-run trend. The latest rise extends the current period of growth to nine months. Anecdotal evidence provided by the survey panel suggested that below par new order growth reflected relatively soft 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.

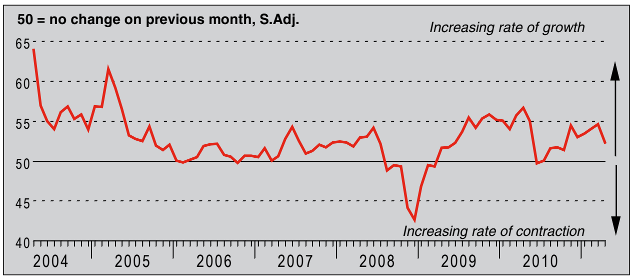


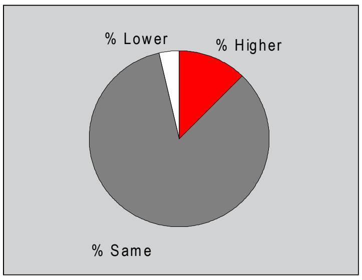


After adjusting for seasonal variation, the New Export Orders Index pointed to a second successive month-on-month increase in new export business. However, the pace of growth was only marginal, with the vast majority of panellists (exactly 84%) reporting no change in new export orders since March. Respondents widely commented that the subdued increase of new orders from abroad reflected lacklustre demand in 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.

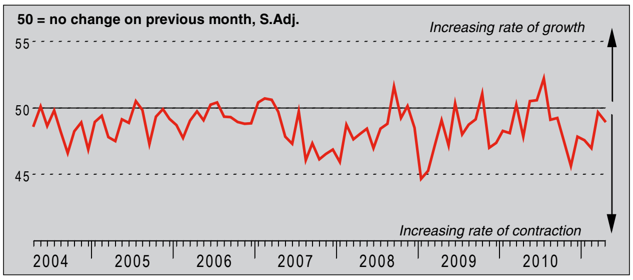


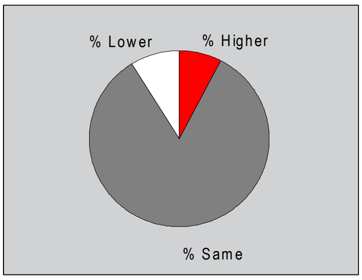


The seasonally adjusted Backlogs of Work Index pointed to a further increase in outstanding business during April, with around 12% of firms recording a rise since March. The index has now posted above the neutral level of 50.0 for ten successive months. However, the latest reading signalled the slowest rate of accumulation since last October. This primarily reflected a relatively subdued increase in overall 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.

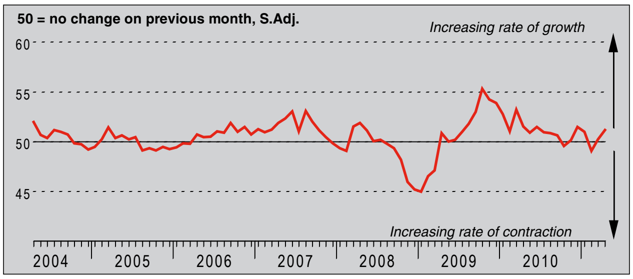


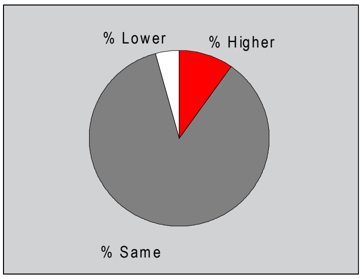


April data pointed to further reduction in post-production inventories. However, the seasonally adjusted Stocks of Finished Goods Index was at a level indicative of only a marginal rate of contraction. The vast majority of survey respondents (around 84%) reported no change in finished goods holdings from one month ago. Anecdotal evidence suggested that some manufacturers opted to meet inflows of new business through stock depletion.

Employment Index

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

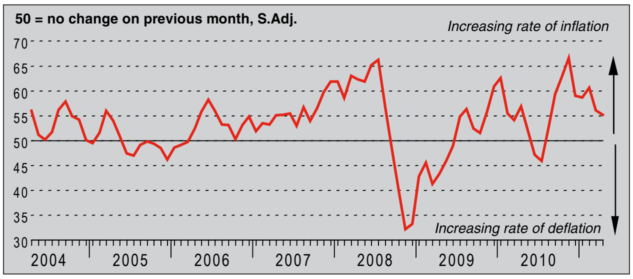


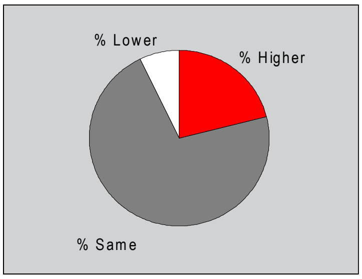


Manufacturing employment in China rose for a second successive month during April. Although only modest, the rate at which firms added to their workforce numbers was the fastest since last December. Of those survey participants that recorded a rise in staff levels (around 10%), the majority attributed growth to higher output requirements. Manufacturers that reported a fall in staff numbers liked this to a combination of employee retirements and resignations.

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.

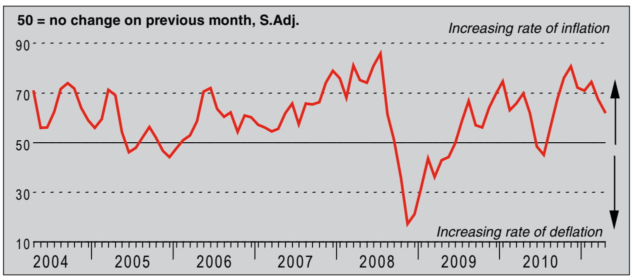


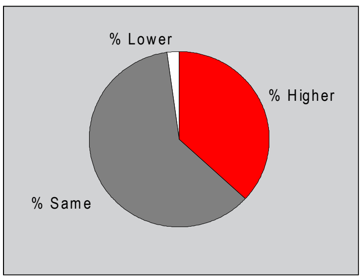


Chinese manufacturers continued to raise their factory gate charges in April. Around 21% of firms recorded an increase in output prices from one month ago, compared to 7% that saw a decrease. Although stronger than the long-run trend, the rate of inflation eased for the second successive month to the slowest since last August. Companies that reported a rise in their average output charges generally commented on the need to pass on higher costs to clients.

Input Prices Index

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

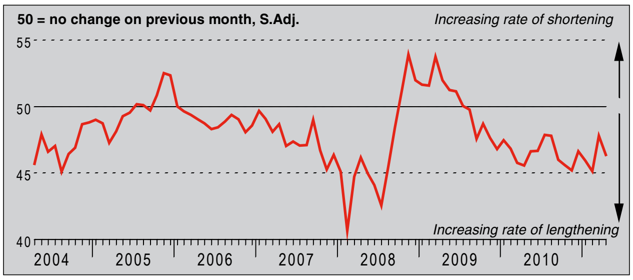


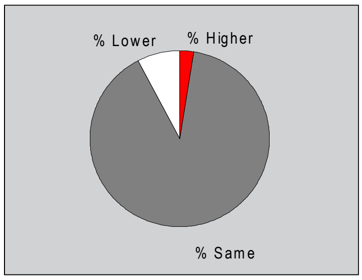


After adjusting for seasonal factors, the Input Prices Index pointed to a sharp increase in average cost burdens faced by Chinese manufacturing firms. Despite moderating to the slowest in eight months, the rate of input price inflation was stronger than the long-run trend. Where a rise in purchasing costs was signalled, respondents commonly cited rising raw material prices as the principal driver of inflation. Crude oil and steel were both reported to have risen in cost since March.

Suppliers' Delivery Times Index

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

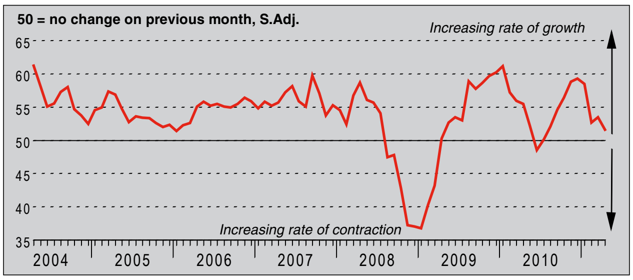


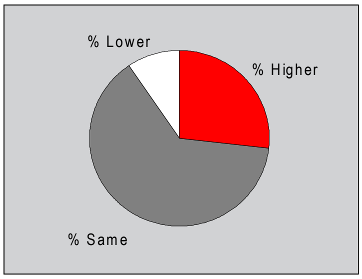


The average time taken by vendors to deliver inputs to Chinese manufacturing firms lengthened for a twenty-first successive month in April, with around 8% of panellists signalling slower lead times. This compared to only 3% that indicated an improvement in vendor performance. The resulting pace of delivery time lengthening was moderate, and faster than the long-run trend. According to panellists, delays in the supply chain reflected stock shortages at vendors. The recent earthquake in Japan was also cited as having caused disruption.

Quantity of Purchases Index

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

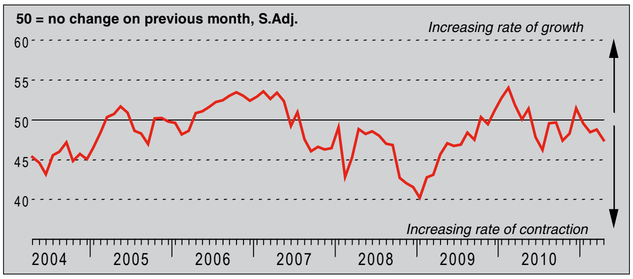


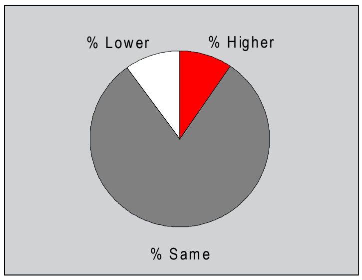


Purchasing activity continued to rise in the April survey period, extending the current period of growth to ten months. However, the rate at which manufacturers acquired additional inputs was only modest, and eased to the slowest since last July. Anecdotal evidence suggested that the slower rise in input buying primarily reflected a slowdown in production growth. There were also reports that suppliers were having difficulties in sourcing inputs.

Stocks of Purchases Index

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





After adjusting for seasonal variation, the Stocks of Purchases Index pointed to a further decline in the amount of raw materials and semi-manufactured goods held by Chinese manufacturing firms. The index dropped to a six-month low, signalling a moderate rate of stock depletion that was faster than the long-run series average. According to respondents, destocking was linked to lacklustre purchasing growth and, in some cases, attempts to mitigate against 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.

Warning