HSBC *Purchasing Managers' Index™* 2011

compiled by markit

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

HSBC China Manufacturing PMI™

Chinese manufacturing production rises for the first time in three months

Key findings:

- Marginal output growth recorded
- First fall in new business since July 2010
- Input price inflation accelerates, but remains muted nonetheless

PMI™ survey data signalled renewed growth of Chinese manufacturing output in August, albeit marginal. Purchasing activity increased as a result, which in turn contributed to a slower rate of stock depletion. On the demand side, incoming new business fell for the first time in over a year, and new export orders decreased further. Meanwhile, manufacturing employment rose at a fractional rate. Looking at price pressures, rates of output charge and input price inflation quickened, but remained subdued in the context of historic data.

After adjusting for seasonal variation, the *HSBC Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – signalled a deterioration in Chinese manufacturing sector operating conditions for the second month in succession. However, by rising from 49.3 to 49.9 in August, the index was at a level indicative of a negligible rate of deterioration.

Incoming new business received by manufacturers decreased for the first time in 13 months during August. However, the pace of reduction in new work was only slight. A reduction in new export business was also recorded in August, extending the current period of contraction to four months. Where new business from abroad decreased, survey respondents mentioned sluggish demand from external markets.

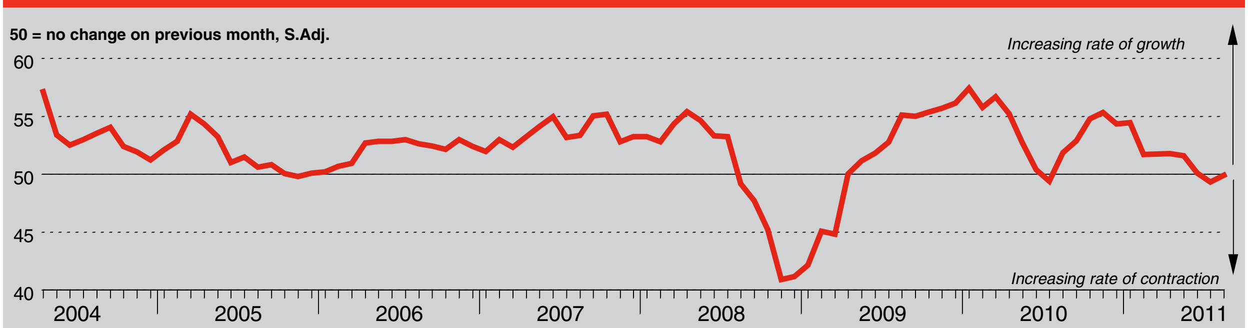
Despite the decrease in overall new business, manufacturing production in China rose during August, ending a two-month period of decline. However, the pace of growth was only marginal, and insufficient to generate an accumulation of post-production inventories, which fell for the thirteenth month running in August.

In response to higher output requirements, manufacturers raised their input buying for the first time in three months, and at the fastest pace since March. Consequently, the rate at which stocks of purchases were depleted eased since the preceding month. Meanwhile, average vendor performance deteriorated moderately, with respondents linking longer lead times to supply shortages at vendors.

Renewed employment growth was recorded during August, although the rate of job creation was only slight. Recruitment was attributed by panellists to plans to expand production capacity. Those firms that reduced headcounts commented on retirements and the non-replacement of leavers.

The rate of input cost inflation accelerated to the fastest in three months, but remained weak in the context of historical data. Higher raw material and fuel prices were cited as key drivers of inflation in the latest survey period. Firms continued to pass on higher costs to clients through increased output charges. Similar to the trend in input prices, the rate of output price inflation quickened to a three-month high, but remained slower than the long-run series average.

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. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

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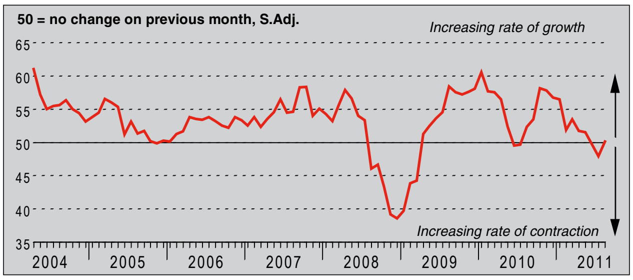
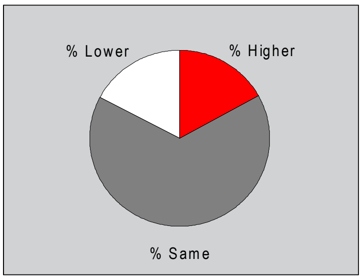
Output Index

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

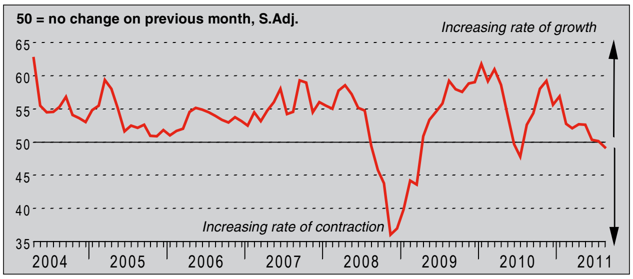


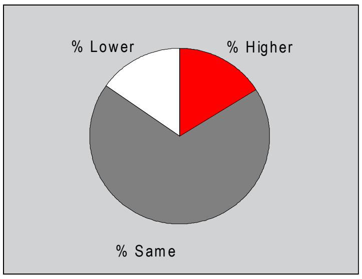


Manufacturing production in China rose during August, ending a two-month period of decline. However, the seasonally adjusted Output Index was at a level indicative of only a marginal rate of expansion. Manufacturers generally attributed the subdued increase in output to lower levels of new business. There were also reports of shortages of raw materials, as well as machinery maintenance.

New Orders Index

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

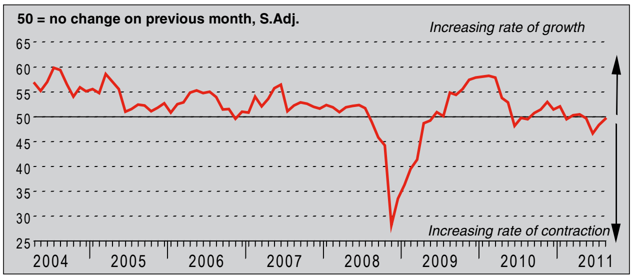


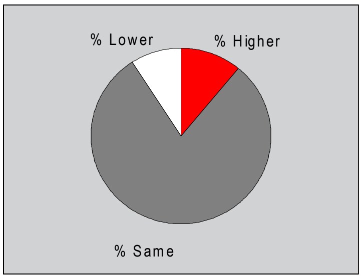


August data signalled a reduction in incoming new orders received by Chinese manufacturers, with the seasonally adjusted New Orders Index dropping below the neutral 50.0 threshold for the first time since July 2010. Nonetheless, the rate of decline in new business was only marginal. Those companies that reported a drop in new order levels often mentioned that this reflected a stagnation of client demand from both domestic and external markets.

New Export Orders Index

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

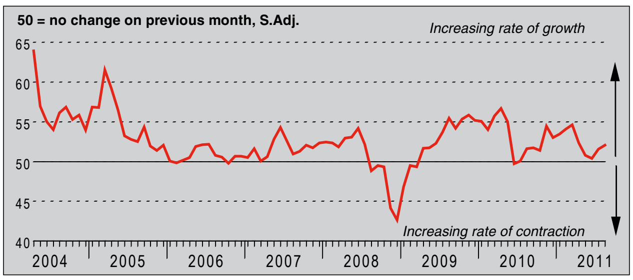


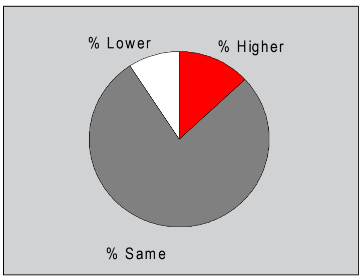


Incoming new export orders received by Chinese manufacturers decreased again in August. The seasonally adjusted New Export Orders Index has now posted below the neutral level of 50.0, signalling contraction, for four months in a row. However, the pace of decline in new export business was only marginal, and the slowest in three months. Where new orders from abroad decreased, survey respondents mentioned sluggish 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.

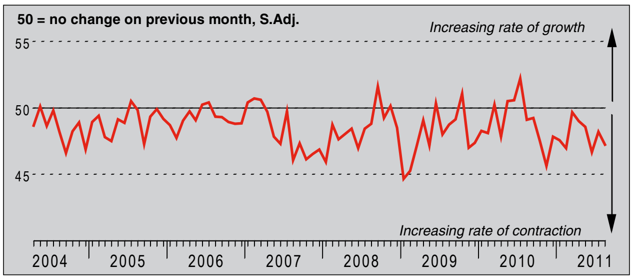


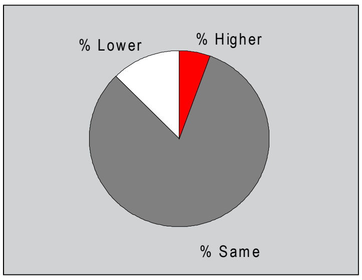


After accounting for seasonal factors, the Backlogs of Work Index pointed to a further increase in outstanding business at Chinese manufacturing firms during August. Although only modest, and slower than the long-run series average, the rate of backlog accumulation was the sharpest since April. Exactly 13% of the survey panel recorded a rise in work-in-hand from one month ago, versus 9% that signalled a contraction.

Stocks of Finished Goods Index

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

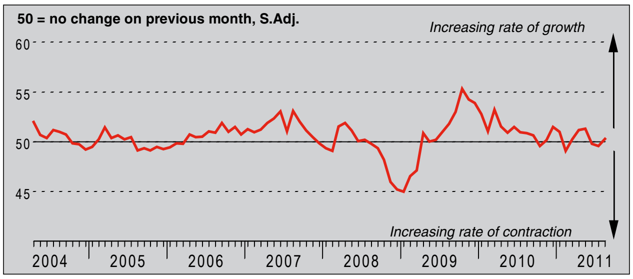


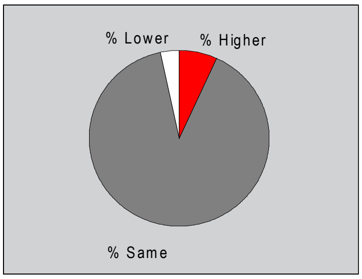


August data signalled a further decrease in stocks of finished goods held by Chinese manufacturers, with almost 13% of the survey panel reporting a decrease from one month ago. This compared to around 6% that recorded an increase. The resulting pace of stock depletion was moderate, and faster than in July. Falling stock levels were attributed by panellists to relatively subdued output growth.

Employment Index

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

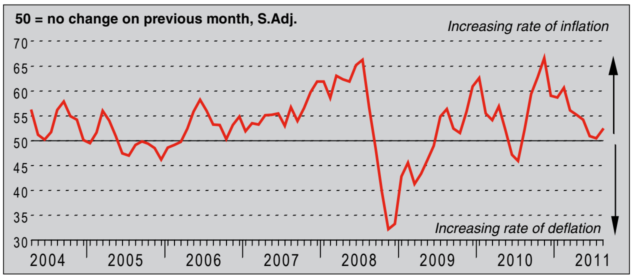


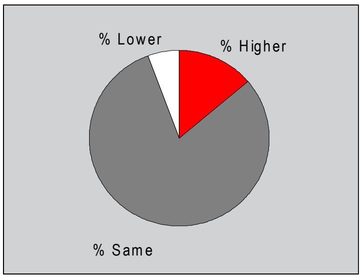


After adjusting for seasonal variation, the Employment Index climbed above the neutral level of 50.0 during August, signalling a rise in manufacturing employment for the first time in three months. Nonetheless, the rate of job creation was only marginal, with the vast majority of panellists (almost 90%) reporting no change in staff numbers since the preceding month. Recruitment was attributed by panellists to plans to expand production capacity. Those firms that reduced headcounts commented on retirements and the non-replacement of leavers.

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.

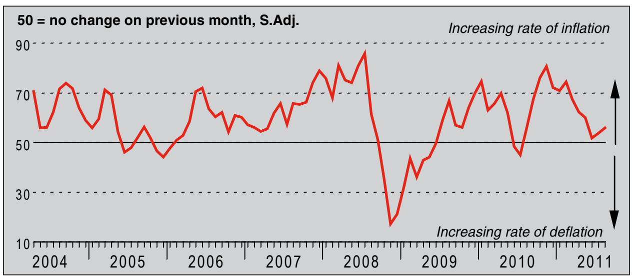


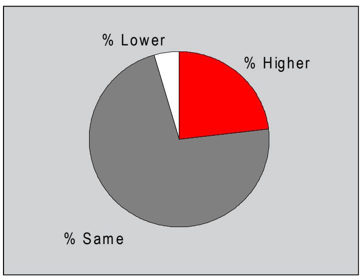


Prices charged by Chinese manufacturers for their finished goods rose for the thirteenth successive month in August. Despite climbing to a three-month high, the seasonally adjusted Output Prices Index was at a level indicative of only a modest rate of inflation. Approximately 14% of panellists reported an increase in their selling prices during the latest survey period, which they widely attributed to the need to offset 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.

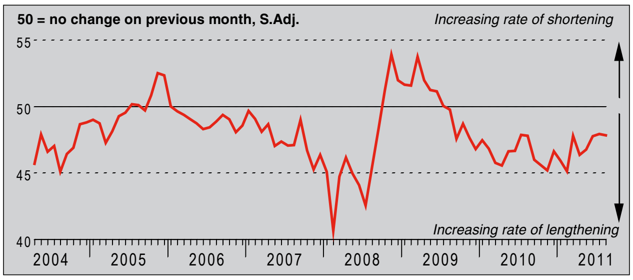


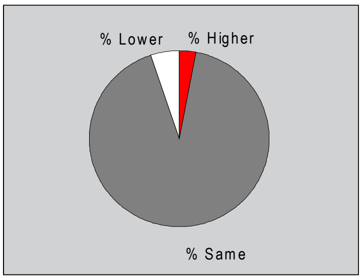


Average input costs faced by Chinese manufacturing firms rose further in August, with the seasonally adjusted Input Prices Index posting above the neutral 50.0 threshold for the thirteenth month in succession. Despite accelerating to a three-month high, the rate of purchase price inflation was subdued in the context of historic data. Companies that reported an increase in input prices generally commented on higher raw material costs. Anecdotal evidence suggested that inflation emanated from domestic markets in the latest survey period.

Suppliers' Delivery Times Index

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

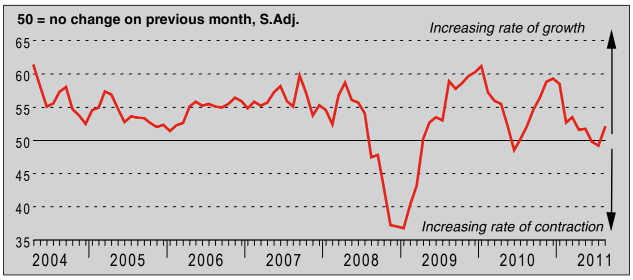


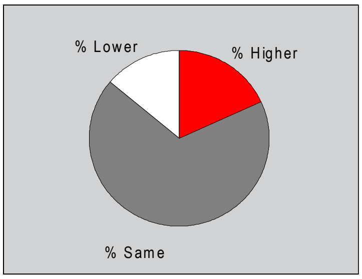


The average time taken by suppliers to deliver inputs to Chinese manufacturing firms lengthened at a moderate pace during August. However, the vast majority of panellists (almost 92%) reported no change in vendor performance from one month ago. Stock shortages at suppliers was the main reason given by respondents for the lengthening of lead times. There were also reports that tight credit conditions had restricted the ability of some suppliers to meet delivery schedules.

Quantity of Purchases Index

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

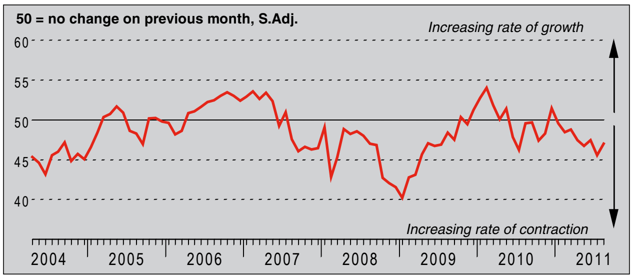


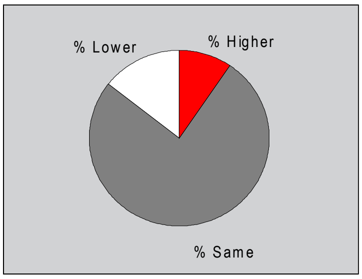


Renewed growth of purchasing activity among Chinese manufacturers was recorded in August, with the seasonally adjusted Quantity of Purchases Index posting above the neutral 50.0 threshold for the first time in three months. Although at a level consistent with only a modest rate of expansion, the index posted its highest reading for five months. Where manufacturers reported a rise in the amount of inputs purchased, growth was linked to higher output requirements.

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 posted below the neutral level of 50.0 in August, signalling a further decline in stocks of raw materials and semi-manufactured goods. Despite easing since July, the rate of stock depletion was among the fastest in the current eight-month period of decline. Respondents signalled that the latest reduction in pre-production inventories reflected relatively subdued purchasing growth.

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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