HSBC Purchasing Managers' Index™ Press Release

compiled by markit

Embargoed until: 09:45 (Beijing), 31 December 2012

HSBC China Manufacturing PMI™

Operating conditions improve at fastest rate in 19 months

Summary

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.5 in December, up from 50.5 in November, signalling a modest improvement of operating conditions in the Chinese manufacturing sector. Moreover, it was the highest index reading since May 2011.

Output at manufacturing plants in China expanded in December, and for the second month in a row. Although the rate of expansion was modest, it was the fastest in 21 months. Total new orders also increased but at a faster pace than in November, the quickest since January 2011. Exactly 15% of panellists noted increased order volumes, a number of which attributed growth to increased client demand. Meanwhile, new export orders fell slightly following a modest increase in November. Just over 12% of firms reported lower new export orders in the latest survey period. Fewer export sales were linked to weak demand in Europe, Japan and the US.

Backlogs of work were broadly unchanged in December, with the index signalling a fractional reduction in work-in-hand. A majority of survey respondents (nearly 85%) reported no change in the level of outstanding business. Employment levels also remained broadly similar in December, with nearly 92% of panellists noting no change to workforce numbers.

Average lead times lengthened for the third month in a row in December. However, the rate of deterioration weakened at only a negligible pace.

Input prices at manufacturing plants continued to increase in December, and for the third successive month. The rate of inflation eased slightly from November but remained marked overall. Average tariffs also increased during December, after remaining broadly similar in November. Output charges rose at an accelerated pace that, although modest, was the quickest in 14 months. Anecdotal evidence suggested that tariffs were raised in line with rising market demand and higher input costs.

Purchasing activity rose at a marked rate in December, the fastest since March 2011. Exactly 17% of panellists reported increased input buying. Consequently, stocks of purchases also rose. Even though the pace of stock accumulation was only slight, it was the quickest in two years. Rises in input buying and stocks of purchases were generally associated with higher new order volumes.

Finally, post-production stocks were depleted for the third successive month, but at a fractional pace.

Comment

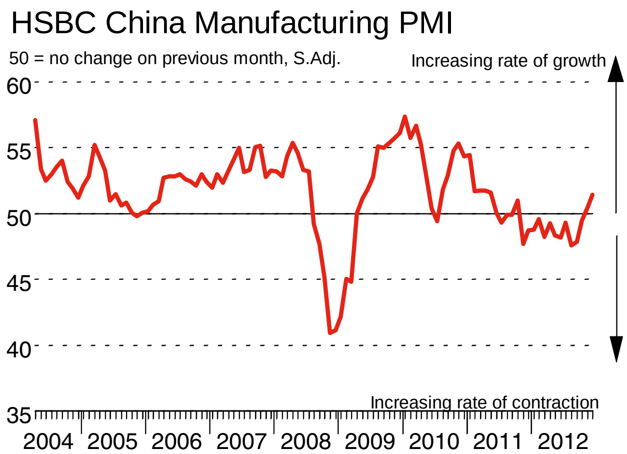
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"December's final manufacturing PMI picked up for the fourth consecutive month to a 19-month high, thanks to the faster new business flows and the end of destocking. Such a momentum is likely to be sustained in the coming months when infrastructure construction runs into full speed and property market conditions stabilise. This, plus Beijing's reiteration of keeping pro-growth policy in place into the coming year, should support a modest growth recovery of around 8.6% y-o-y in 2013, despite the ongoing external headwinds."

Key points

- Output expands at the quickest rate since March 2011
- Total new orders rise despite slight fall in new export orders
- Purchasing activity increases at the fastest pace in 21 months

Historical Overview



Sources: Markit, HSBC.

The January HSBC Flash China Manufacturing PMI is due for release 24th January 2013.

For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates

markit

HSBC

For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Group Communications, China
Telephone +86 21 3888 1251
Email dianayqmao@hsbc.com.cn

Markit

Annabel Fiddes, Economist
Telephone +44-1491-461-010
Email annabel.fiddes@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-781-581-2162
Email caroline.lumley@markit.com

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 industry contribution to Chinese GDP. 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:

HSBC is one of the world's largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 134 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 2,300 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:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are 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