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HSBC China Manufacturing PMI™

Manufacturing PMI™ signals broad stabilisation of output, but new export business decreases at fastest rate since June 2011

Key findings:

- Output growth constrained by continued demand weakness
- Jobs growth the highest in nine months
- · Companies report higher average input costs for first time since last October

February data showed Chinese manufacturing output rising at a negligible rate. Intakes of new work fell for a fourth month in succession, while new export business decreased at the sharpest rate since June last year. Despite this, companies added to their staff numbers, with jobs growth the highest in nine months.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index*TM (PMI^{TM}) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – registered 49.6 in February, up from 48.8 in the preceding month, signalling a further worsening of manufacturing sector operating conditions. The latest index reading was nonetheless consistent with a marginal pace of deterioration that was the slowest in four months.

Companies reported a continued decrease in total new order intakes during the month. However, the pace of reduction in new work was only modest. Anecdotal evidence indicated that muted demand conditions had contributed to the overall decline in new business. Additionally, new export business fell during February, following a broadly stable outcome in January, with the pace of reduction the fastest in eight months.

Lower levels of new business meant that manufacturing output was little changed over the month. The index measuring trends in factory output was nonetheless the highest in four months. Meanwhile, companies accumulated post-production goods for only the second time in the past 19 months, mainly reflecting weaker-than-expected sales.

Manufacturing employment in China increased during February. Although modest, the rate of job creation was the sharpest since May last year. Companies that reported a rise in staff numbers mentioned higher output requirements and, in some cases, business expansion plans.

Manufacturers registered a fourth successive month-on-month decline in input buying, with the rate of reduction remaining solid. The overall decrease in purchasing reflected negligible growth of factory output, as well as a preference among firms to deplete inventory holdings of pre-production goods. The latest decline in stock levels was solid, and steeper than the long-run trend for the survey. Despite reduced purchasing, companies continued to report longer vendor lead times. However, the rate of deterioration in supplier performance remained marginal.

February data showed an increase in average input costs for the first time in four months, although the rate of inflation was marginal. Higher input prices reflected increased raw material and fuel costs. Meanwhile, charges at the factory gate fell again in February, extending the current period of decline to four months. That said, the rate of output price discounting was much slower than in the preceding month. Subdued input price pressures and strong competition for new business were cited by panellists as having contributed to the overall decline.



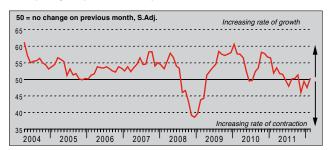
The HSBC China Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

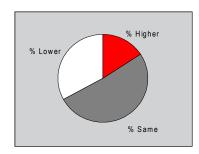




Output Index

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



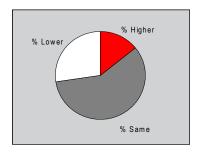


Chinese manufacturers recorded negligible growth of factory output during February, with the seasonally adjusted Output Index posting slightly above the neutral 50.0 threshold. The latest index reading was nonetheless the highest in four months. Companies cited lower levels of new business as having restricted growth of manufacturing production during the latest survey period.

New Orders Index

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



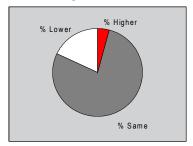


February data signalled a reduction in the level of new orders placed with Chinese manufacturers. The latest decrease in new business was the fourth in as many months. However, the rate of contraction was marginal, and noticeably slower than in the final two months of 2011. Anecdotal evidence provided by survey respondents suggested that reduced new order volumes reflected weak 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.



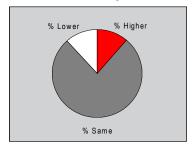


The latest survey findings highlighted a renewed decline in new export business received by Chinese manufacturing firms. The seasonally adjusted New Export Orders Index fell to an eight-month low, a level indicative of a solid rate of decline in export sales. The index has now posted below the 50.0 no change mark in two of the past five months. Anecdotal evidence suggested that weak foreign demand was the principal factor behind the latest reduction in new export orders.

Backlogs of Work Index

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

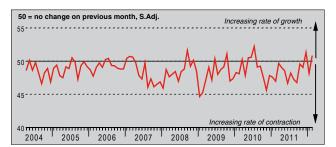


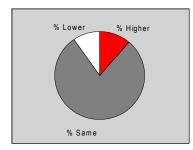


After adjusting for seasonal factors, the Backlogs of Work Index indicated that levels of outstanding business in the Chinese manufacturing sector remained broadly stable during the month. As new orders decreased, some panellists mentioned relocating resources to completing existing workloads. Of those survey participants that reported a rise in work-in-hand (but not yet completed), a number attributed this to labour shortages at their plants.

Stocks of Finished Goods Index

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



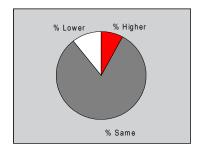


February data showed a renewed rise in holdings of post-production goods at manufacturers' plants, with around 11% signalling an increase since the preceding month. This compared to 10% that noted a reduction. However, the rate of stock accumulation was marginal. Companies that mentioned a rise in stocks of finished goods generally attributed this to higher output requirements. There were also reports of lower-than-expected sales

Employment Index

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

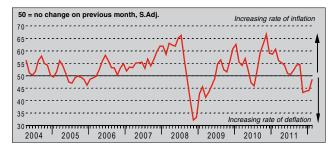


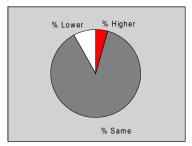


Companies added to their staff numbers during the month. Despite posting a nine-month high, the seasonally adjusted Employment Index was at a level indicative of a marginal rate of job creation. Where a rise in workforce numbers was signalled, panellists linked growth to higher output requirements and, in some cases, business expansion plans. Manufacturers that noted a reduction in staffing levels mentioned employee resignations. There were also reports of labour shortages.

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 manufacturing firms for their finished goods continued to decrease during February. The rate at which companies lowered their average tariffs was modest, however, and the slowest in the current four-month sequence of reduction. According to survey respondents, lower selling prices reflected muted input price pressures. Some companies also mentioned reducing factory gate charges in an attempt to stimulate client demand.

Input Prices Index

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



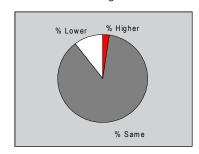


February data signalled a rise in average costs faced by Chinese manufacturers for the first time in four months. The latest seasonally adjusted Input Prices Index reading was nonetheless consistent with a marginal rate of inflation. Moreover, the latest increase in purchasing costs was in stark contrast to the near-record rates of inflation seen at the start of 2011. Higher raw material and fuel costs were cited as the principal drivers of inflation during the month.

Suppliers' Delivery Times Index

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



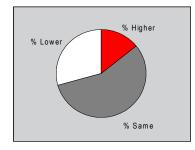


Average delivery times faced by Chinese manufacturers from suppliers continued to lengthen in February. Where a deterioration in supplier performance was reported, this was frequently attributed by panellists to shortages of certain raw materials. That said, the rate of lead time lengthening remained marginal, with the vast majority of panellists (around 87%) signalling no difference in vendor performance compared to one month earlier.

Quantity of Purchases Index

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

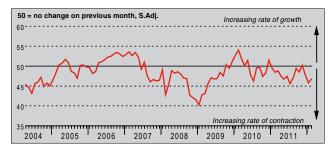


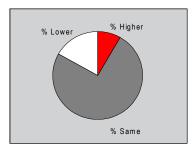


The amount of raw materials and semi-manufactured goods bought by manufacturers for use in production decreased for the fourth month running in February. Moreover, the seasonally adjusted Quantity of Purchases Index was at a level indicative of a solid rate of reduction. Survey respondents widely attributed reduced purchasing activity to negligible growth of manufacturing output. There were also reports of deliberate stock reduction policies.

Stocks of Purchases Index

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





Manufacturers in China reported a third successive month-on-month decrease in stocks of purchases at their plants. Almost 17% of survey participants mentioned a reduction in inventory holdings since the preceding month, compared to 8% that noted an increase. Despite easing from one month ago, the rate of stock depletion was solid. Where a decline in pre-production inventories was recorded, panellists commonly linked this to reduced purchasing activity.

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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