Embargoed until: 10:30 (BEIJING), 3 September 2012

HSBC China Manufacturing PMI™

Manufacturing sector operating conditions worsened at the sharpest rate in 41 months

Key findings:

- · Renewed decline in factory output signalled
- New export orders fall to greatest extent since March 2009
- · Average input costs down at steepest rate in 41 months

August data signalled a renewed decline in Chinese manufacturing output, as new business decreased at the sharpest rate in nine months. Consequently, backlogs of work fell modestly, and job shedding was recorded for the sixth month in succession. On the price front, average input costs declined at the sharpest rate in 41 months, while the rate of output price discounting remained sharp.

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 – posted 47.6 in August, down from 49.3 in July, signalling a tenth successive month-on-month deterioration in Chinese manufacturing sector operating conditions. Moreover, the latest index reading was the lowest since March 2009.

Manufacturing output in China declined during August, following a rise one month previously. Although only modest, the rate of decline in factory output was the sharpest since March. Where a drop in manufacturing production was recorded, survey respondents commented on lower levels of incoming new business. The pace of reduction in new orders was solid, and the most marked in nine months. Meanwhile, new export orders also decreased during August, and at the sharpest rate since March 2009.

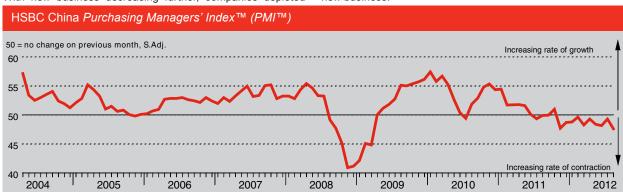
With new business decreasing further, companies depleted

their volumes of work-in-hand (but not yet completed) over the month. Although only modest, the rate of decline in outstanding business was the sharpest since January 2009.

Meanwhile, staff numbers in the Chinese goods producing sector decreased during August, with the rate of job shedding the fastest in 41 months. The latest decrease in headcounts was the sixth in as many months. Reduced employment in part reflected falling new order volumes.

Purchasing activity in China's manufacturing sector decreased for a fourth successive month during August, although the rate of decline remained marginal. Stocks of purchases fell as a result, with the latest decline the sharpest since May. Meanwhile, muted demand for raw materials meant that average vendor performance improved for the fourth month running, albeit at a fractional rate. Anecdotal evidence provided by survey respondents suggested that shorter lead times reflected sufficient availability of inputs at vendors.

Average input costs faced by goods producers fell further during August, with the rate of decline accelerating to the fastest in 41 months. Survey respondents commented on lower prices paid for a range of raw materials. Manufacturers in China reduced their average tariffs as a result. The pace of output price discounting was sharp, and little-changed since the month before. There were also reports of increased competition for new business.



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.

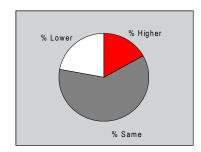




Output Index

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



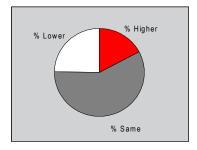


August data signalled a renewed reduction in Chinese manufacturing production, with approximately 22% of survey participnats signalling a contraction since the month before. This compared to 17% that indicated an increase. The rate of reduction in factory output was only modest, however. Anecdotal evidence provided by survey respondents suggested that reduced manufacturing production reflected lower levels 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.



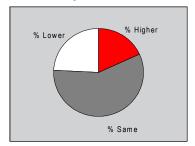


After adjusting for seasonal variation, the New Orders Index posted below the 50.0 no change value in August, signalling a tenth successive month-on-month decline in new order volumes. Moreover, the latest index reading was consistent with a solid rate of decline in new work that was the sharpest since November last year. Of those survey respondents that recorded a reduction in new orders (almost 25%), the majority attributed this to subdued demand conditions.

New Export Orders Index

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



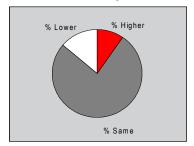


August data pointed to a further decline in the level of new export business placed at Chinese manufacturing firms. The latest seasonally adjusted New Export Orders Index was consistent with a solid pace of reduction in new export orders that was the fastest since March 2009. Companies cited muted global demand conditions as the main reason behind the overall decrease in export sales. Indeed, panel responses indicated that demand weakness was broad-based across all of China's major trading partners.

Backlogs of Work Index

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

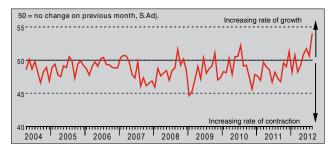


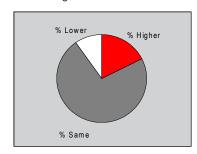


With new business falling further, Chinese goods producers worked through their volumes of work-in-hand (but not yet completed) during August, following a rise one month previously. Although only modest, the rate of backlog depletion was the sharpest since January 2009. Almost 14% of survey respondents reported a decline in outstanding business since the month before, versus 10% that mentioned a rise.

Stocks of Finished Goods Index

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



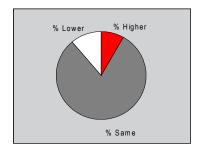


Holdings of post-production goods in the Chinese manufacturing sector increased during August, extending the current period of expansion to four months. Higher stock levels largely reflected weaker-than-expected sales, according to respondents to the latest survey. The seasonally adjusted Stocks of Finished Goods Index was at a level indicative of a solid rate of stock accumulation. Moreover, the latest index reading was the highest since data were first compiled in April 2004.

Employment Index

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



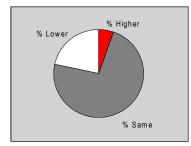


Staff numbers in China's manufacturing sector decreased during August, extending the current period of decline to six months. The latest seasonally adjusted Employment Index reading was consistent with a moderate rate of job shedding. Moreover, the latest decrease in workforce numbers was the steepest in 41 months. Respondents to the latest survey attributed the month-on-month reduction in manufacturing employment to fewer intakes of new business.

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.



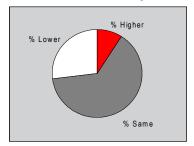


Prices charged by Chinese goods producers for their final goods decreased in August, with the seasonally adjusted Output Prices Index posting below the neutral 50.0 threshold for the fourth month running. The rate at which companies reduced their average tariffs was sharp, and little changed since the month before. Almost 22% of survey respondents reported a decline in selling prices, which the majority attributed to lower average costs. Some panellists also mentioned increased competition for new business.

Input Prices Index

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



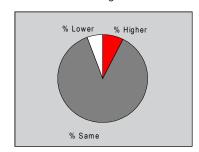


In line with the trend observed since May, average input costs faced by China's goods producers continued to decrease in August. Exactly 27% of survey participants reported a fall in purchasing costs since July, compared with just 9% that indicated a rise. The rate of decline in input prices was steep, and the sharpest in 41 months. Where a drop in average costs was signalled, companies commented on lower prices for a range of raw materials.

Suppliers' Delivery Times Index

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



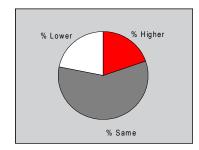


August data indicated that the average time taken by suppliers to deliver inputs to Chinese manufacturing firms shortened for the fourth successive month. Anecdotal evidence provided by survey respondents suggested that shorter lead times reflected sufficient availability of inputs at vendors. The rate of improvement in vendor performance was only slight, however, with the majority of panellists (approximately 87%) reporting no change since the preceding month.

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 posted below the neutral level of 50.0 in August, signalling a fourth successive month-on-month decline in purchasing activity. However, the index was at a level indicative of a marginal rate of decline in input buying. The latest decrease in purchasing reflected lower output requirements, according to survey respondents.

Stocks of Purchases Index

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





Manufacturers in China reported a ninth successive month-on-month decrease in stocks of purchases at their plants. Around 16% of survey participants mentioned a reduction in inventory holdings since the preceding month, compared to 11% that noted an increase. The rate of stock depletion was solid, and the sharpest in three months. 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 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.

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