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HSBC China Manufacturing PMI™

PMI hits two-year high in January

Key findings:

- Output expands at the quickest pace since March 2011
- Solid rise in total new orders
- Purchasing activity increases at the fastest rate in two years

Latest data signalled an expansion of output in the Chinese manufacturing sector for the third successive month in January. New orders increased at a solid pace, while new exports rose slightly following a reduction in December. Rising orders led to the quickest increase in purchasing activity in two years, while backlogs of work also rose for the first time in six months. On the price front, input costs increased at a solid pace, while output charges were raised modestly.

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 52.3 in January, up from 51.5 in December, signalling a modest improvement of operating conditions in the Chinese manufacturing sector for the third successive month.

Output in the Chinese manufacturing sector increased for the third month in a row during January. The rate of expansion accelerated from December to a marked pace. New orders rose for the fourth consecutive month, and at a solid pace that was the sharpest in two years. New export orders also increased, following a reduction in the previous month. Survey respondents suggested strengthened demand from clients in Europe and the LIS

Backlogs of work increased during January, after a five-month period of reduction. Over 10% of panellists reported an increased

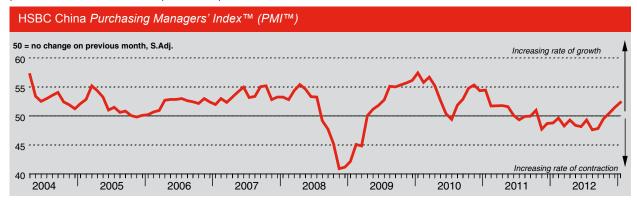
level of work-in-hand, which was generally associated with new order growth. Employment levels rose, albeit marginally, for the second month in a row.

Suppliers' delivery times lengthened for the fourth successive month in January. Although vendor performance deteriorated at a modest pace, it was the fastest deterioration since August 2011. A number of survey respondents suggested higher demand for inputs led to longer delivery times.

Input costs faced by manufacturers rose for the fourth month in a row in January. The rate of input price inflation was solid, and the quickest since September 2011. Panellists suggested inflation was linked to higher raw material costs. Meanwhile, output charges also increased for the second successive month. However, inflation remained modest overall, with less than 12% of survey respondents reporting increased output charges.

Purchasing activity continued to increase in January. The growth rate of input buying accelerated from the previous month to a solid pace, with exactly 26% of survey respondents reporting an increase. Panellists attributed the rise in purchasing to new order growth. Consequently, stocks of purchases also increased, albeit marginally, for the third month in a row.

Stocks of finished goods fell for the fourth consecutive month in January. That said, the rate of depletion was slight. Anecdotal evidence linked the reduction to increased sales.



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.

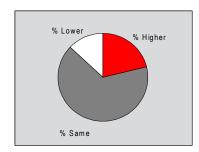




Output Index

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



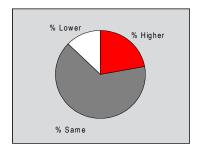


Output in the Chinese manufacturing sector expanded for the third successive month in January. The seasonally adjusted Output Index signalled that the rate of expansion accelerated and was marked, with just over 21% of survey respondents reporting higher production. Moreover, it was the quickest expansion of output since March 2011. Anecdotal evidence suggested that the rise in output was linked to growth of new orders.

New Orders Index

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



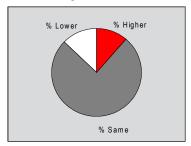


The seasonally adjusted New Orders Index indicated a solid rise in total new orders received at manufacturing plants in January. New orders have now increased for four consecutive months, with January signalling the fastest growth rate in two years. More than 22% of monitored companies recorded new orders growth in January, while nearly 13% noted a reduction. A number of panellists linked the rise to increased client demand.

New Export Orders Index

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





New export orders at Chinese manufacturing firms increased during January, following a slight reduction in December. Adjusting for seasonal factors, the New Export Orders Index signalled only a marginal increase in new export orders overall, with just over 11% of survey respondents reporting an increase. That said, it was only the third recorded expansion of new export orders in the past year. The overall rise in January was associated with increased client demand, particularly in Europe and the US.

Backlogs of Work Index

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



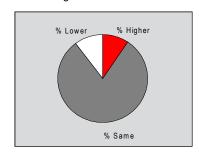


The level of outstanding business in the manufacturing sector increased in January, following a five-month period of reduction. After adjusting for seasonal factors, the Backlogs of Work Index indicated that the rate of accumulation was modest, with just over 10% of panellists recording a higher level of work-in-hand. Anecdotal evidence suggested that growth of new orders had led to the overall increase in outstanding business.

Stocks of Finished Goods Index

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



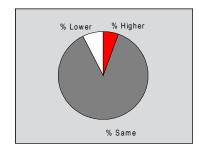


Stocks of finished goods fell in January, extending the current trend to four months. That said, the rate of stock depletion was similar to the previous month and only slight, with just over 10% of panellists recording a lower level of inventories in the latest survey period. Panellists mentioned increased sales volumes had led to the overall depletion of inventories.

Employment Index

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

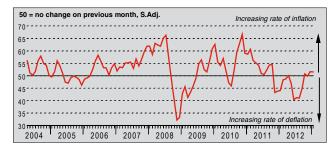




Staffing levels at Chinese manufacturing plants increased for the second successive month in January. The seasonally adjusted Employment Index signalled that the rate of job creation was marginal, with just over 5% of survey respondents reporting increased payroll numbers. Anecdotal evidence suggested that additional staff members were taken on as a result of higher production requirements.

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.



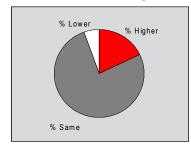


Output charges increased in the manufacturing sector for the second month in a row in January. The seasonally adjusted index indicated the rate of increase was similar to December, remaining modest overall. Nearly 12% of panellists reported higher average tariffs in the latest survey period, while just under 6% noted a reduction. The overall rise in output charges was attributed to the passing-on of higher input 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.



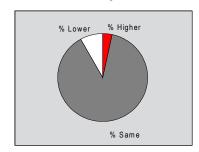


Average input costs at manufacturing firms increased for the fourth consecutive month in January. The rate of input price inflation accelerated from December to solid pace, the fastest since September 2011. Moreover, approximately 18% of panellists signalled higher input costs, compared with just over 5% that noted a reduction. According to survey respondents, higher raw material costs were the main driver of inflation.

Suppliers' Delivery Times Index

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



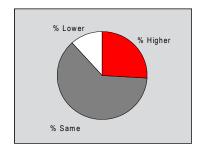


Average lead times at manufacturing companies lengthened for the fourth consecutive month in January. The rate of deterioration accelerated from the previous month to a modest pace, to reach the fastest since August 2011. Over 8% of survey respondents reported longer lead times, but a majority (over 88%) noted no change. A number of panellists suggested that increased demand for inputs had led to slower delivery times.

Quantity of Purchases Index

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

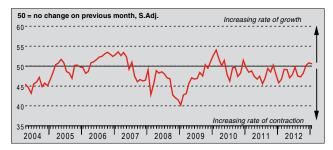


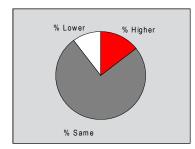


Purchasing activity rose for the fourth month in a row during January, with more than a quarter of panellists recording an increased amount of input buying. The growth rate of purchasing activity accelerated from December to a solid pace, the quickest in two years. The latest rise in input buying was generally associated with higher order volumes.

Stocks of Purchases Index

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





Stocks of purchases increased for the third successive month in January. The rate of accumulation was similar to that seen in the previous month, and remained marginal overall. More than 14% of panellists recorded a higher level of stock in January, compared to just over 10% that signalled a reduction. Anecdotal evidence indicated the overall accumulation of inventories was a result of higher 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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