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HSBC China Manufacturing PMI™

Operating conditions deteriorate at faster pace in July

Key findings:

- · Output contracts for the second month in a row as firms signal a further reduction in new orders
- Market demand reported to be lower both at home and abroad
- Quickest reduction in workforce numbers since March 2009

July signalled a marked deterioration of business conditions faced by Chinese manufacturers. Output across the sector contracted for the second month in a row, as total new orders declined at a faster rate. New business from abroad also fell over the month, though the rate of reduction eased since June. Buying activity decreased in response to reduced production requirements and efforts to utilise current stocks of purchases. Job shedding continued, with the latest round of job cuts the quickest since March 2009.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' IndexTM (PMITM)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted an eleven-month low of 47.7 in July, down from 48.2 in June, therefore signalling a deterioration of business conditions for the third consecutive month.

Production levels at Chinese manufacturers declined for the second month in a row in July. The rate of contraction quickened slightly, but remained modest overall. Lower output was driven by a further decline in new business, in both domestic and international markets, with the net fall in total new orders the sharpest for 11 months. New export orders, in contrast, fell at a reduced pace, though have now declined for four months in a row. Anecdotal evidence indicated deteriorating market conditions, both domestically and internationally, had led to reduced client demand. Exporters reported that new sales to

Europe, South East Asia and the United States were all lower compared to June levels.

Payroll numbers were cut for the fourth successive month in July, with the rate of job shedding the quickest since March 2009. According to some respondents, the reduction was due to a combination of employee resignations and company downsizing. Despite further job losses, backlogs of work fell modestly over the month, with a number of firms citing spare capacity at their plants.

Manufacturers reduced their input buying for the third month running in July, albeit at a modest pace. As a result, suppliers' delivery times marginally improved for the fourth month in a row. Stocks of purchases also fell since June, with a number of respondents mentioning that stocks were depleted in line with reduced order book volumes and associated lower production requirements.

Finally, on the price front, cost pressures continued to ease. Average input costs fell at the slowest pace in four months but still at a marked pace overall as imported goods were reported to be lower in price. Reduced operating costs were passed on to clients through a fall in output charges. Average tariffs have now decreased for five months in a row, although the pace of discounting eased since June and was the slowest recorded since March.



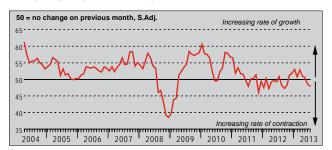
The HSBC China *Purchasing Managers' Index*TM (*PMI*TM) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMITM 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*TM and *PMI*TM 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.

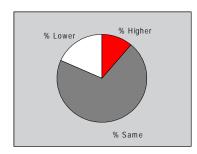




Output Index

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



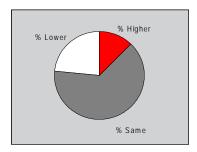


Chinese manufacturers signalled a reduced level of output for the second successive month in July. Furthermore, the rate of contraction quickened since June to a modest pace. Over 18% of survey respondents reported lower production levels (while approximately 11% saw an expansion of output), with a number of firms suggesting that the contraction of output was a result of fewer 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.



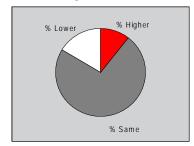


The seasonally adjusted New Orders Index signalled a marked drop in new orders placed at manufacturing firms during July. New business has now fallen for three consecutive months. More than 23% of panellists saw a fall in order book volumes in the latest survey period, compared with just over 12% that noted an expansion. According to anecdotal evidence, client demand softened due to deteriorating market conditions, both domestically and internationally.

New Export Orders Index

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



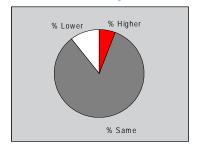


New business from abroad decreased for the fourth month in a row in July. After adjusting for seasonality, the rate of contraction eased from June, but remained marked, with more than 16% of respondents recording a lower intake of new orders from overseas. A number of panellists mentioned that softer demand in a number of key export markets had reduced 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.





The level of work-in-hand at Chinese manufacturers decreased for the third successive month in July. Furthermore, the rate of backlog depletion, though modest, was the quickest since January 2009. Nearly 11% of survey respondents recorded a lower volume of outstanding business in the latest survey period compared with just under 6% that indicated a rise. The overall reduction of backlogged work was generally attributed to fewer new orders, which in turn resulted in spare capacity at some plants.

Stocks of Finished Goods Index

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



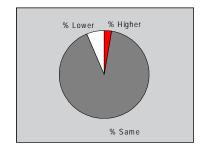


Stocks of finished goods held by manufacturers declined for the first time since February during July. Though the rate of depletion was modest, it was the strongest reduction since last October. Exactly 10% of panellists recorded lower inventories of post-productions goods in the latest survey period, while just less than 9% signalled an increase. According to some survey respondents, reduced output and fewer sales drove down stock levels over the month.

Employment Index

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



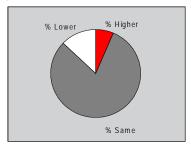


July data signalled a marked rate of job shedding in China's manufacturing sector during July. Moreover, the rate of reduction in the latest survey period was the quickest since March 2009. Staffing levels have now declined for four successive months. Just over 6% of survey respondents reported a reduction in payroll numbers over the latest survey period, with a number of firms attributing job cuts to a combination of employee resignations and company downsizing.

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.



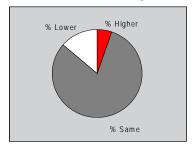


Manufacturers cut their output charges for the fifth month in a row in July. After adjusting for seasonal factors, the rate of discounting eased since June, but remained marked. Approximately 13% of respondents lowered their average tariffs during the latest survey period, compared with just over 6% that signalled an increase. According to anecdotal evidence, charges were lowered in an effort to boost sales.

Input Prices Index

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



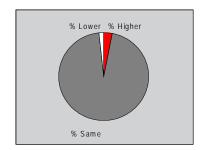


Average input costs faced by Chinese goods producers declined for the fifth month in a row in July. The rate of reduction was marked, despite easing to the slowest in four months, with nearly 14% of panellists reporting lower input prices. A number of respondents mentioned that a drop in raw material prices in international markets had reduced operating costs.

Suppliers' Delivery Times Index

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



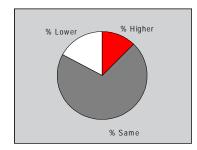


Average lead times shortened for the fourth consecutive month in July. That said, the rate of improvement was only slight, and little-changed from the pace seen in June. Moreover, the vast majority of survey respondents (over 95%) saw no change to lead times compared to the previous survey period.

Quantity of Purchases Index

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



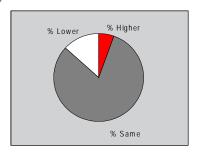


Input buying at manufacturing plants fell for the third month in a row in July. After adjusting for seasonality, the rate of reduction was modest, with more than 17% of panellists noting a decline in purchasing activity (while just over 12% signalled an increase). Fewer new orders were cited by a number of respondents as a key reason for reduced input buying.

Stocks of Purchases Index

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





Chinese manufacturers signalled a further reduction of stocks of purchases during July. Furthermore, the degree to which inventories decreased quickened to a marked pace that was the fastest since last September. More than 13% of respondents noted stock depletion in the latest survey period, while just over 5% recorded an accumulation. According to a number of panellists, inventories were readjusted in line with softer client demand and lower output requirements.

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 420 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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