HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC China Manufacturing PMI™

PMI signals modest deterioration of business conditions in February

Summary

Chinese manufacturers signalled reductions of both output and new business in February, leading to a moderate deterioration of overall operating conditions. As a result, firms cut their staffing levels again in February and at the quickest pace in nearly five years. Meanwhile, input costs and output charges both declined at their fastest rates in eight months.

After adjusting for seasonal factors, such as the recent Chinese New Year festival, the HSBC *Purchasing Managers' Index™ (PMI™)* posted at 48.5 in February, up fractionally from the earlier flash reading of 48.3, and down from 49.5 in January. This signalled a moderate deterioration in the health of the Chinese manufacturing sector.

February data signalled the first contractions of both output and new orders at Chinese manufacturers since July 2013. The rates of decline were moderate in both cases, and were linked by panellists to weaker-than-expected client demand. New business from abroad also declined over the month, and at a modest pace that was little-changed from January.

Lower output requirements and fewer new orders led to a fourth successive monthly fall in staffing levels at Chinese goods producers in February. Furthermore, the rate of job shedding was the quickest since March 2009.

Despite reduced payroll numbers, outstanding business declined at Chinese manufacturing firms in February. Though only slight, it was the first fall in the level of work-in-hand for seven months. According to survey respondents, reduced volumes of new business enabled firms to lower their amount of unfinished work.

Fewer new orders also led companies to reduce their purchasing activity in February. This was the first time that input buying had decreased since July 2013. Inventories of pre-production goods also fell over the month as companies readjusted stock levels in line with reduced production requirements.

Meanwhile, suppliers' delivery times improved for the third month in a row. However, the rate of improvement eased to a fractional pace.

On the price front, average input costs fell for the second month running in February. Moreover, the rate of input price deflation was the strongest since June 2013. According to anecdotal evidence, relatively muted demand for inputs enabled firms to negotiate discounts on production materials.

Finally, manufacturers cut their factory gate prices for the third month in a row during February, and at the quickest rate in eight months.

Comment

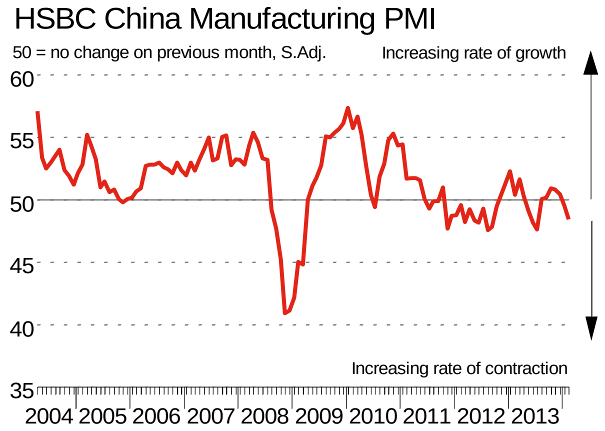
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The final reading of the HSBC China Manufacturing PMI confirmed the weakness of manufacturing growth. Signs become clear that the risks to GDP growth are tilting to the downside. This calls for policy fine-tuning measures to stabilise market expectations and steady the pace of growth in the coming quarters."

Key points

- Both output and new orders decline for the first time since July 2013
- Payroll numbers are cut at fastest rate since March 2009
- Solid reduction of output charges

Historical Overview



Sources: Markit, HSBC.

The March HSBC Flash China Manufacturing PMI is due for release 24th March 2014.

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

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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 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

Alex Brog, Corporate Communications
Telephone +44 207 264 7602
Email alex.brog@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 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. 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.

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About PMI:

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