HSBC *Purchasing Managers' Index*™ Press Release

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compiled by markit

HSBC China Manufacturing PMI™

Chinese manufacturing production rises for the first time in three months

Summary

PMI™ survey data signalled renewed growth of Chinese manufacturing output in August, albeit marginal. Purchasing activity increased as a result, which in turn contributed to a slower rate of stock depletion. On the demand side, incoming new business fell for the first time in over a year, and new export orders decreased further. Meanwhile, manufacturing employment rose at a fractional rate. Looking at price pressures, rates of output charge and input price inflation quickened, but remained subdued in the context of historic data.

After adjusting for seasonal variation, the *HSBC Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – signalled a deterioration in Chinese manufacturing sector operating conditions for the second month in succession. However, by rising from 49.3 to 49.9 in August, the index was at a level indicative of a negligible rate of deterioration.

Incoming new business received by manufacturers decreased for the first time in 13 months during August. However, the pace of reduction in new work was only slight. A reduction in new export business was also recorded in August, extending the current period of contraction to four months. Where new business from abroad decreased, survey respondents mentioned sluggish demand from external markets.

Despite the decrease in overall new business, manufacturing production in China rose during August, ending a two-month period of decline. However, the pace of growth was only marginal, and insufficient to generate an accumulation of post-production inventories, which fell for the thirteenth month running in August.

In response to higher output requirements, manufacturers raised their input buying for the first time in three months, and at the fastest pace since March. Consequently, the rate at which stocks of purchases were depleted eased since the preceding month. Meanwhile, average vendor performance deteriorated moderately, with respondents linking longer lead times to supply shortages at vendors.

Renewed employment growth was recorded during August, although the rate of job creation was only slight. Recruitment was attributed by panellists to plans to expand production capacity. Those firms that reduced headcounts commented on retirements and the non-replacement of leavers.

The rate of input cost inflation accelerated to the fastest in three months, but remained weak in the context of historical data. Higher raw material and fuel prices were cited as key drivers of inflation in the latest survey period. Firms continued to pass on higher costs to clients through increased output charges. Similar to the trend in input prices, the rate of output price inflation quickened to a three-month high, but remained slower than the long-run series average.

Comment

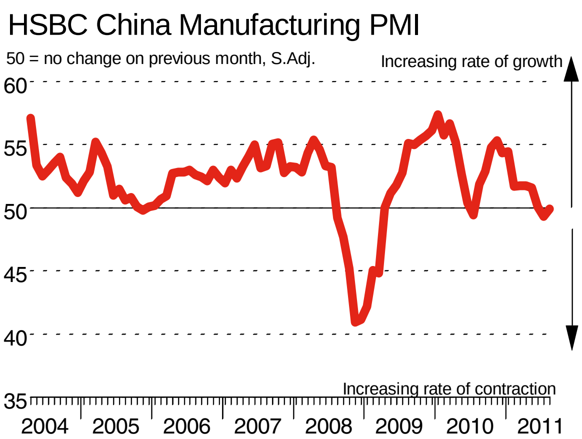
Commenting on the China Manufacturing *PMI™* survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The August final manufacturing PMI reading edged up marginally from the flash reading, almost close to the break-even level. Both output and employment rebounded to above the 50 line for the first time in three months. These data confirm our view that China will only see growth moderation in the coming months, rather than a hard landing."

Key points

- Marginal output growth recorded
- First fall in new business since July 2010
- Input price inflation accelerates, but remains muted nonetheless

Historical Overview



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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 Group Communications, China
Telephone +86 21 3888 1251
Email dianayqmao@hsbc.com.cn

Markit

Alex Hamilton, Economist
Telephone +44-1491-461-076
Email alex.hamilton@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7064-6283
Mobile +44-782-789-1072
Email rachel.harling@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 400 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.

HSBC:

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About Markit:

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About PMIs:

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