HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC China Manufacturing PMI™

Operating conditions deteriorate fractionally in January

Summary

Chinese manufacturers saw a fractional deterioration in operating conditions at the start of 2015. Although output rose slightly and new orders broadly stabilised, staffing levels were cut for the fifteenth successive month. Meanwhile, relatively subdued client demand led companies to reduce their stock holdings of both post- and pre-production goods in January. On the costs front, lower raw material prices led to the steepest reduction in average input costs since March 2009, which contributed to a sharp decline in prices charged.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted at 49.7 in January, down slightly from the earlier flash reading (49.8), but up fractionally from 49.6 in December. This signalled a second successive monthly deterioration in the health of the sector, albeit only slight.

Latest data indicated a renewed expansion of Chinese manufacturing output in January, though the rate of increase was only fractional. This was the first time that production has risen in three months. Meanwhile, total new business was broadly unchanged, following a slight reduction in December. According to panellists, relatively muted client demand, both at home and overseas, dampened new order growth. Furthermore, growth in new export work eased to a marginal pace that was the slowest in the current nine-month sequence.

Manufacturing companies reduced their headcounts again in January. That said, the rate of job shedding was the weakest recorded in 15 months and only slight. Reduced workforce numbers contributed to a further accumulation of outstanding business in January. That said, the rate of increase eased since December and was modest overall.

Purchasing activity meanwhile declined for the second straight month in January. However, the rate of reduction was similar to that seen in December and marginal. Relatively subdued client demand also led companies to reduce their inventories of inputs and finished goods at the start of the year. Furthermore, stocks of pre-production goods declined at the strongest rate in nine months.

Average input costs declined for the sixth month running in January, with the rate of deflation accelerating to the sharpest since March 2009. Output charges set by Chinese manufacturers also fell at an accelerated rate in January.

Comment

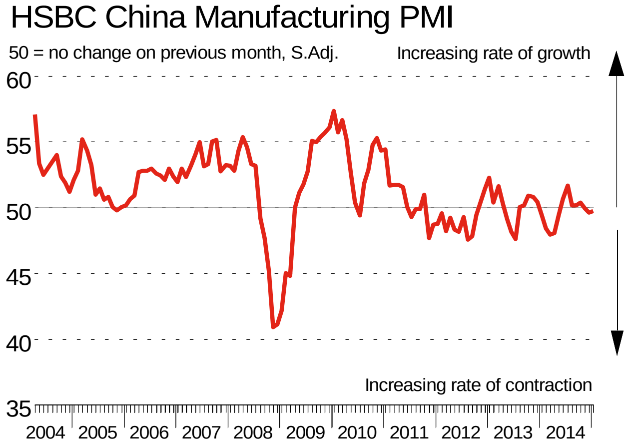
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The HSBC China Manufacturing PMI rose to 49.7 in the final reading for January, from 49.6 in December, and revised down from the flash reading of 49.8. Both new orders and new export orders saw downward revisions, but still signalled marginal expansion. We think demand in the manufacturing sector remains weak and more aggressive monetary and fiscal easing measures will be needed to prevent another sharp slowdown in growth."

Key points

- Output increases for first time since October, albeit fractionally
- Employment levels fall at weakest rate in 15 months
- Average input costs fall at sharpest pace since March 2009

Historical Overview



Sources: Markit, HSBC.

The February HSBC Flash China Manufacturing PMI is due for release 25th February 2015.

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

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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.

HSBC:

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We serve around 52 million customers through our four Global Businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 74 countries and territories in Europe, the Asia-Pacific region, the Middle East, Africa, North America and Latin America.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 in 129 countries and territories.

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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