HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 09:45 (Beijing) 2 March 2015

compiled by markit

HSBC China Manufacturing PMI™

Operating conditions improve for the first time in four months

Summary

Manufacturers in China saw a renewed improvement in overall operating conditions in February, with output and total new orders both expanding at faster rates. However, latest data indicated that external demand was relatively weak, with new export business declining for the first time in 10 months. Meanwhile, average input costs declined sharply over the month, as companies continued to benefit from lower costs for oil and oil-related products, which contributed to a solid fall in prices charged.

After adjusting for seasonal factors, including the recent Chinese New Year, 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 50.7 in February, compared to the earlier flash reading of 50.1. This was up from January's reading of 49.7, and signalled the first improvement in the health of the sector since last October, albeit marginal.

The renewed improvement in overall operating conditions was supported by a stronger expansion of output in February. Though modest overall, it was the quickest increase in production since last August. According to panellists, greater client demand led firms to raise output over the month, as highlighted by a stronger expansion of total new orders. Data suggested that firmer domestic demand had helped to boost new business, as new export work declined moderately for the first time since April 2014.

Chinese manufacturing employment declined again in February. That said, the rate of job shedding eased to a fractional pace that was the slowest in the current 16-month sequence. Meanwhile, increased new orders contributed to a greater amount of unfinished business in February, with the rate of expansion quickening slightly since the start of the year.

Stronger client demand encouraged the first increase in purchasing activity since last October in February. However, the rate of growth was only slight. Greater purchasing activity contributed to a renewed increase in inventories of inputs in February, albeit modest. A number of monitored companies also mentioned purchasing and storing more inputs to take advantage of lower prices for some raw materials.

Chinese goods producers saw a further decline in average input costs in February. The rate of deflation remained sharp, despite easing since January's 70-month record. Prices charged fell for the seventh successive month and at a solid rate.

Comment

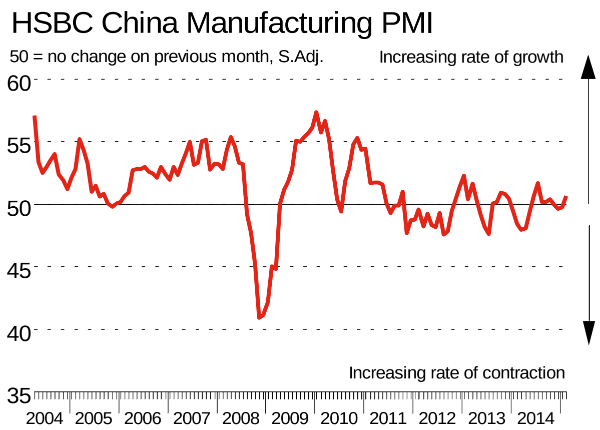
Commenting on the China Manufacturing PMI™ survey, Annabel Fiddes, Economist at Markit said:

"China's manufacturing sector saw an improvement in overall operating conditions in February, with companies registering the strongest expansion of output since last summer while total new business also rose at a faster rate. However, the renewed fall in new export orders suggests that foreign demand has weakened, while manufacturers continued to cut their staff numbers (albeit fractionally). Meanwhile, marked reductions in both input and output prices indicated that deflationary pressures persist."

Key points

- Stronger expansions of both output and total new orders...
- ...but new export work contracts for the first time since April 2014
- Input prices continue to fall sharply

Historical Overview



Sources: Markit, HSBC.

The March HSBC Flash China Manufacturing PMI is due for release 24th March 2015.

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

markit

HSBC

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

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@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.

HSBC:

HSBC is one of the world's largest banking and financial services organisations. With more than 6,200 offices in both established and emerging markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and, ultimately, helping people to fulfil their hopes and realise their ambitions.

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.

About Markit:

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 10 countries. Markit shares are listed on NASDAQ under the symbol "MRKT". For more information, please see www.markit.com.

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