

HSBC China Manufacturing PMI™

Operating conditions continue to improve at fractional pace

Summary

September data signalled only a fractional improvement in overall operating conditions faced by Chinese manufacturers that was identical to that seen in August. Production increased at the slowest pace in the current four-month sequence of expansion, while job shedding across the sector extended into an eleventh successive month. Meanwhile, a slightly stronger expansion of total new business, largely driven by the strongest rise in new export work for four-and-a-half years, led to the quickest accumulation of backlogged work in 2014 so far.

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 50.2 in September, down slightly from the earlier flash reading of 50.5, and unchanged from August's three-month low. This signalled only a fractional improvement in the health of the sector.

Chinese manufacturers saw a further expansion of output in September, though the rate of increase eased further from July's 16-month high and was the slowest in four months of expansion. Panellists generally attributed growth to higher volumes of new work, as highlighted by a modest increase in total new business. Data suggested that inflows of new work were largely driven by stronger demand from abroad, with new export orders rising at the fastest pace since March 2010. Panellists commented that improving economic conditions across a number of key export markets helped to boost new export business.

Despite higher volumes of new work, companies continued to cut their staffing levels in September at a modest pace. Lower workforce numbers were generally attributed to a combination of down-sizing policies and the non-replacement of voluntary leavers. Consequently, capacity pressures persisted across the sector, with volumes of outstanding business rising for the fourth successive month. Though only moderate, it was the quickest rate of backlog accumulation in 2014 so far.

Purchasing activity in China's manufacturing sector rose for the fifth month in a row during September, albeit at the slowest rate since June.

Manufacturers in China saw a second successive monthly fall in average cost burdens in September. The rate at which input prices fell was the quickest since April. Output prices also declined in September, with a number of companies discounting their selling prices in an attempt to boost new business.

Comment

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

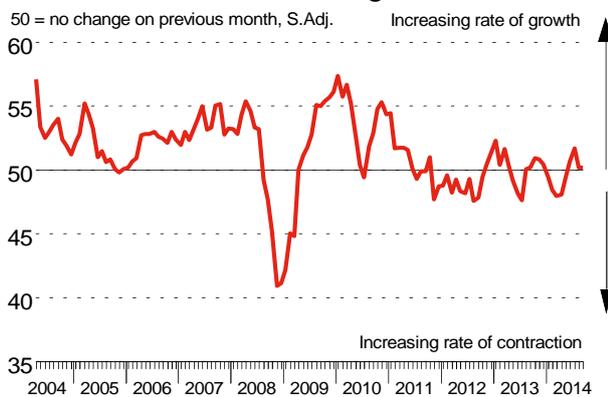
"The HSBC China Manufacturing PMI was revised down slightly to 50.2 in the final reading for September from the flash reading of 50.5, and unchanged from the August reading. Output and new orders were both revised down. Meanwhile, the employment and price sub-indices were revised up, although both remain at relatively low levels. The new export orders sub-index rose to its highest reading since March 2010. Overall, the data in September suggest that manufacturing activity continues to expand at a slow pace. We think risks to growth are still on the downside and warrant more accommodative monetary as well as fiscal policies."

Key points

- Output growth eases further from July's 16-month high
- New export business expands at fastest rate since March 2010
- Staffing levels are cut for eleventh consecutive month

Historical Overview

HSBC China Manufacturing PMI



Sources: Markit, HSBC.

The October HSBC Flash China Manufacturing PMI is due for release 23rd October 2014.

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

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 around 6,600 offices in both established and faster-growing 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 55 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 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 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

The intellectual property rights to the HSBC China Manufacturing *PMI*[™] provided herein are owned by or licensed to Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*[™] and *PMI*[™] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. HSBC use the above marks under license. Markit is a registered trade mark of Markit Group Limited.