

HSBC China Services PMI™ (with Composite PMI data)

Combined growth of manufacturing and services output eases to only marginal rate in July

Summary

Overall growth of China's manufacturing and service sectors eased to near-stagnation in July, with the seasonally adjusted HSBC Composite Output Index posting 50.4. This was down from 51.6 in June, and below the long-run series average (54.7).

The slowdown in overall growth reflected a faster decline in manufacturing output and a slower expansion of activity in the service sector. The latter was signalled by a drop in the seasonally adjusted Business Activity Index from 54.1 to 53.5.

New business placed at Chinese service providers rose further during July, with firms commenting on stronger client demand, the success of promotional activities and new product launches as factors. However, growth eased to a pace that was only slightly stronger than April's 28-month low. This, coupled with a near-stagnation of new work taken by manufacturers, contributed to only a modest overall rise in new business.

Backlogs of work in the Chinese service sector fell during July, suggesting limited pressure on firms' capacity amid below-par growth of incoming new business. In contrast, growth of unfinished business at manufacturers reached a three-month high in the latest survey period.

Employment growth was recorded in the service sector during July. Recruitment was predominantly attributed by survey respondents to increased workloads. However, the pace of job creation was only modest, and eased to the slowest since May 2009. With a further decline in manufacturing sector employment recorded, staff numbers across both sectors rose at the slowest pace in over two years.

Average input costs faced by service providers rose markedly in July, although the pace of inflation eased to the slowest in five months. This was partly offset at the composite level by a sharper rise in manufacturers' purchasing costs.

Despite cost rises, service providers raised their output charges only fractionally amid growing competition for new business in the sector. Manufacturers also recorded only a marginal rise in factory gate charges. As a result, composite data signalled the slowest rate of output charge inflation in the current 12-month period of rising average tariffs.

Chinese service providers in China expressed continued optimism regarding the short-term business outlook. Positive sentiment was attributed by panellists to expectations of better economic conditions, new product launches and the success of commercial activities. That said, the degree of optimism was only slightly higher than June's series-record low. Companies operating in the Renting & Business Activities sector cited policies aimed at cooling the property sector as having dampened business confidence.

Comment

Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

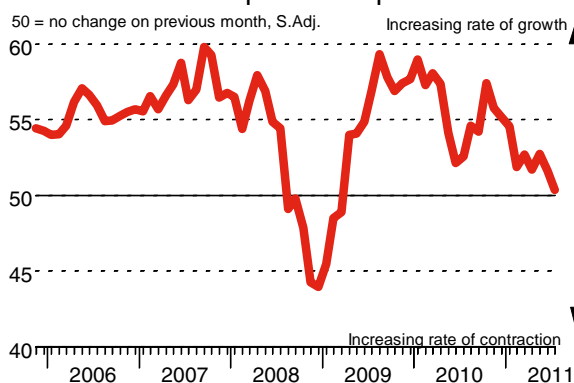
"Service sector activity growth moderated in July, reflecting the effect of monetary tightening and property cooling measures. Despite the slowdown, the service sector continues to expand steadily and will find support from resilient consumer consumption. Meanwhile, inflationary pressures also eased. Combined with cooling price pressures in the manufacturing sector, this implies that inflation has likely peaked."

Key points

- Near-stagnation of activity growth at the composite level
- Overall new business growth eases to modest pace
- Service sector optimism remains subdued

Historical Overview

HSBC China Composite Output PMI



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 Services *PMI*TM is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The HSBC China Composite *PMI*TM is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Chinese manufacturing and service sectors.

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'.

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.

The *Purchasing Managers' Index*TM (*PMI*TM) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. *PMI* surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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 largest banking and financial services organisations in the world, with a market capitalisation of US\$180bn at 31 December 2010. We are headquartered in London. As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength. HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

About Markit:

Markit is a leading, global financial information services company with over 2,200 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

*Purchasing Managers' Index*TM (*PMI*TM) 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.markiteconomics.com

The intellectual property rights to the HSBC China Services and Composite *PMI*TM provided herein is owned by 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*TM and *PMI*TM are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.