

## HSBC China Services PMI™ (with Composite PMI data)

Private sector activity increased at slowest rate in over two years during June

### Summary

Growth of China's private sector cooled from May's four-month high to only a modest rate in June. This was signalled by a drop in the seasonally adjusted HSBC Composite Output Index (covering manufacturing and services) to a twenty-seven month low of 51.6.

The moderation in activity growth primarily reflected a decline in manufacturing output for the first time in almost a year. In contrast, service sector growth was solid, with the seasonally adjusted Business Activity Index holding relatively steady at 54.1 in June. Nonetheless, the latest reading was still down on the long-run series average of 57.2.

Activity growth in the Chinese service sector was supported by a continued rise in new business during June. The rate of new order growth was solid, and the sharpest since last October. This was offset by a near-stagnation of new orders received by manufacturers. Consequently, overall new business growth eased to the slowest for eleven months.

Outstanding business held by service providers fell for the fourteenth successive month during June. Although only modest, the rate of backlog depletion was the fastest since October 2010. This, coupled with only a marginal rate of backlog accumulation in the manufacturing sector, meant that unfinished work fell for the first time since August 2010 at the composite level.

Employment levels in the Chinese service sector rose again during June, extending the current period of growth to twenty-nine months. The rate of job creation was solid, and the fastest in 2011 to date. In contrast, manufacturers recorded a marginal fall in workforce numbers during the latest survey period.

A sharp easing of input cost inflation in the manufacturing sector contrasted with a faster increase in average costs faced by service providers in June. The acceleration in the latter was only slight, however, and the overall pace of input cost inflation eased markedly as a result.

Similarly, composite data signalled the slowest rate of output change inflation in the current eleven-month period of higher tariffs, with only modest increases recorded across both manufacturing and services.

Surveyed service sector firms commented that they remain optimistic regarding future activity levels during the latest survey period. Expectations of further new business wins, new product launches and confidence in the economic outlook were all cited as key factors supporting positive sentiment. However, the degree of optimism was the lowest since data were first compiled in November 2005. Firms operating in the Renting & Business Activities sector reported that policies aimed at cooling the property sector had dampened business confidence in June.

### Comment

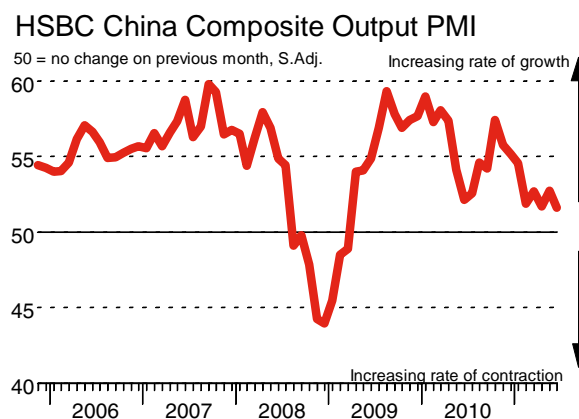
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The continuous steady expansion of the service sector, in particular the notable improvement in employment, should lend support to economic growth, given that services now accounts for 43% of GDP. This should provide room for Beijing to keep the current tightening measures for another 2-3 months to slow inflation meaningfully into 4Q."*

### Key points

- Only modest rise in private sector output signalled.
- Overall input cost inflation eased sharply.
- Service sector business optimism dipped to series-record low.

### Historical Overview



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**Notes to Editors:**

The HSBC China Services *PMI*<sup>TM</sup> 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*<sup>TM</sup> 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*<sup>TM</sup> (*PMI*<sup>TM</sup>) 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](mailto:economics@markit.com).

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