

HSBC China Services PMI™ (with Composite PMI data)

Composite data shows business activity returning to growth in December, although the expansion is only marginal

Summary

Composite HSBC PMI™ data (covering manufacturing and services) signalled a renewed expansion of business activity during December. This was indicated by a rise in the seasonally adjusted Composite Output Index from 48.9 to 50.8. The latest index reading was nonetheless consistent with only a marginal rate of expansion.

For the second successive month, divergent trends were seen at the sector level. Manufacturers reported a further fall in output, albeit only marginal, while service providers noted modest activity growth. The rate of expansion in services output was identical to that recorded in November, with the seasonally adjusted Business Activity Index posting 52.5 in December.

December data pointed to another rise in incoming new business received by Chinese service providers. The rate of expansion in new orders was only modest, however, and the weakest in four months. In contrast, manufacturers recorded a continued fall in new business.

Service providers reported a renewed decline in volumes of work-in-hand (but not yet completed) during December, although the rate of decline was only marginal. An identical pace of backlog depletion was recorded by manufacturing firms in December.

Service providers added to their workforce numbers for the thirty-fifth month in succession. Nonetheless, the rate of jobs growth was modest, and the second-slowest since May 2009. With manufacturing employment falling for the first time since September, the rate of job creation at the composite level eased to the slowest in the 33-month period of hiring.

Prices charged by service providers in China decreased during December, ending a near two-year period of inflation. However, the rate of output price discounting was marginal, and much slower than that recorded by manufacturers.

Average input prices faced by Chinese service providers increased solidly during December. However, the rate of inflation moderated to a 25-month low, and was slower than the long-run trend for the survey. In comparison, manufacturing firms recorded a sharp drop in average cost burdens during December.

When questioned about the prospects for activity at their units over the next 12 months, service providers in China expressed optimism regarding the business outlook. However, the extent of positive sentiment was the lowest since the start of the series in November 2005. Service providers cited policies aimed at cooling the property sector as having dampened business confidence over the month.

Comment

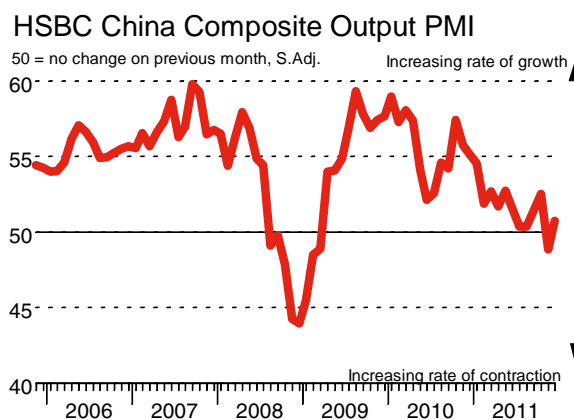
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Unmoved on November's three-month low, the service sector PMI pointed to subdued growth momentum. And more headwinds are down the road due to the still weak manufacturing sector, slower jobs growth, the ongoing property correction and cooling external demand. All these factors call for more aggressive easing measures."

Key points

- Renewed growth of overall activity only marginal
- Jobs growth eases to 33-month low at the composite level
- Service sector business optimism dips to lowest on record

Historical Overview



Sources: 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 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.

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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.

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