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Markit Economics Research

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China

New PMI survey points to strong growth of China's private sector

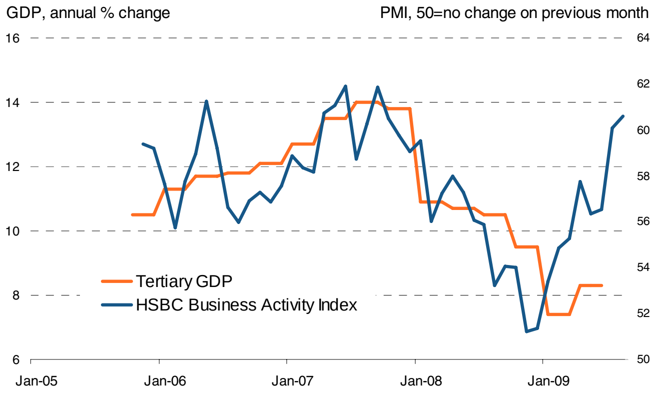
Chinese service sector growth gained further momentum in August.

The new Services PMI for China, compiled by Markit on behalf of HSBC and publicly released for the first time on 3 September, showed the country's service sector recovery continued to gain traction in August.

The tertiary sector is rapidly growing in importance in China. Its contribution to GDP has risen from 32.5% in 2004 to over 40% in 2008, and likely to rise much further in coming years as China's economy continues to develop. In developed economies such as the US and UK, the tertiary sector accounts for approximately 75% of GDP against less than 20% for manufacturing.

The index, first compiled in November 2005 and piloted for almost four years, has correctly anticipated official tertiary sector GDP data (see chart 1), achieving a **correlation of 0.69.** Importantly, the PMI data are available approximately two months ahead of official government estimates.

Chart 1: Services PMI Business Activity

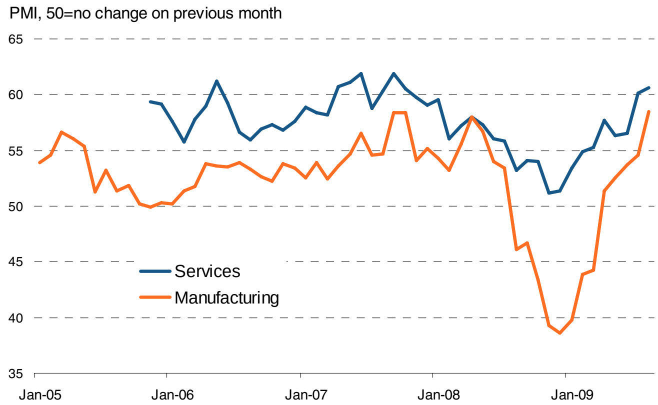


Sources: Markit; NBS; EcoWin

According to the official data, China's tertiary economy expanded at an annual rate of 8.3% in Q2. PMI data indicated that the expansion of the service sector accelerated throughout the first half of this year as demand for services from both consumers and businesses continued to improve. Recent PMI data suggest that tertiary sector GDP growth has accelerated sharply, in line with the near 14% annual rate of expansion seen in mid-2007, prior to the onset of the global financial crisis.

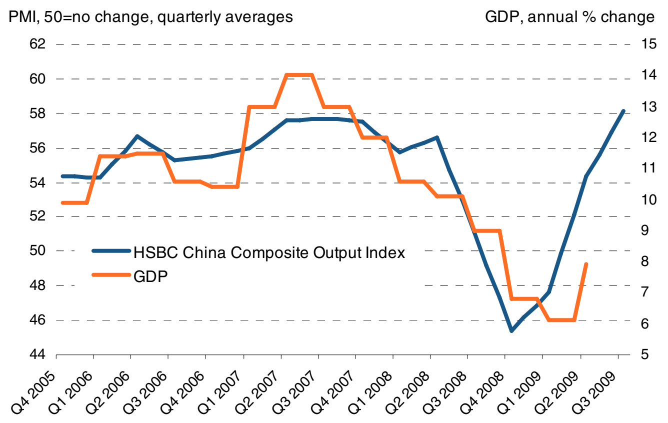
August PMI data revealed that the expansion of China's private sector economy was broad based across both manufacturing and services. However, the service sector has remained relatively more robust over the past year, with the headline HSBC Services Business Activity Index remaining above the neutral 50.0 threshold throughout this period (despite posting several record lows). In contrast, the Chinese manufacturing sector contracted for five successive months around the turn of the year, with manufacturers feeling the brunt of the global downturn due to their reliance on external demand. The subsequent upturn in manufacturing output has been pronounced (see chart 2), reflecting government stimulus measures, which have successfully boosted demand from domestic sources. Overall, both headline indexes bounced back from historic lows recorded around the turn of the year to register near-record highs in August.

Chart 2: China Manufacturing & Services PMI



Sources: Markit; HSBC.

Chart 3: China Composite PMI



Sources: Markit; HSBC; NBS: EcoWin.

PMI is an accurate indicator of actual trends in GDP estimates

The HSBC Composite China PMI, a combination of the newly launched services survey and the established China Manufacturing PMI, signalled that private sector activity rose to the greatest extent in the four-year survey history in August. The composite measure has accurately tracked the underlying trend in official GDP figures since its inception in November 2005, displaying a **correlation of 0.85** with quarterly average growth estimates. A strong rebound in growth was signalled by the PMI survey in advance of the Q2 release of official estimates. As highlighted in chart 3, the Composite PMI Output Index signalled a clear acceleration in economic growth during Q2.

The next HSBC China Manufacturing PMI is released on 1 October, followed by the HSBC China Services & Composite PMI on 5 October. To find out how to receive data from the surveys, or to obtain copies of the reports, please contact **economics@markit.com**

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