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HSBC China Services PMI (with Composite PMI data)

Private sector activity expanded at the second-fastest rate in the survey history, led by a series record increase in new business. Input price inflation accelerated

Summary

A sharper expansion of manufacturing output, combined with the most marked rise in service sector activity since September 2007, meant that growth of the Chinese private sector economy accelerated in August. The headline seasonally adjusted HSBC Composite Output Index climbed to 59.4, from 56.9 in the previous month, to signal that overall activity growth was the second-fastest recorded by the series to date.

Levels of incoming new work placed at Chinese service providers rose again in August, extending the current sequence of rising sales to nine months. New business growth was the strongest for twenty-six months, and the second-fastest recorded by the series to date. With Chinese manufacturers also registering a strong expansion of new order intakes, the composite measure of new business rose to its highest level in the series history, pointing to a considerable rise in new work placed at private sector companies.

August figures signalled that employment in the Chinese service sector rose for the seventh successive month, increasing at the fourth-fastest rate since the inception of the series in November 2005. Job creation in the manufacturing sector was again weaker than that registered in the services economy.

Backlogs data signalled that there was again divergence by sector in August, with service providers recording a further reduction (albeit the weakest for four months) and manufacturers indicating solid growth of unfinished business.

Inputs costs faced by Chinese service providers rose for the fifth straight month in August, although inflation was lacklustre by the historical standards of the survey. In contrast, inflation in the manufacturing sector was considerable, accelerating sharply since July. Subsequently, the Composite Input Prices Index rose to its highest level in just over a year.

A similar trend was registered for output prices in August. A marked increase in manufacturers' cost burdens led the Composite Output Prices Index to its highest level since July 2008.

Comment

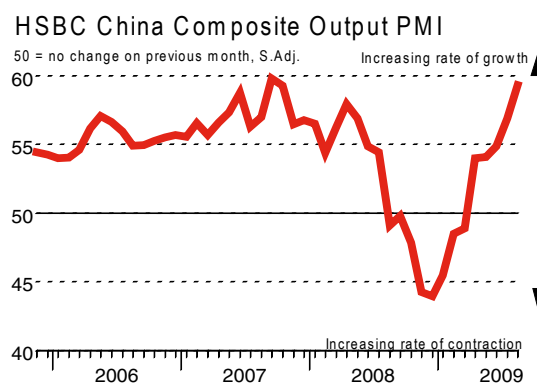
Commenting on the China Services and Composite PMI data, Hongbin Qu, Chief Economist for China at HSBC said:

"Services sector activities are rebounding strongly, as indicated by a rise in the Business Activity Index to 60.6 - its highest level since September 2007 and evidently higher than the historical average of 58.1. This implies that China's investment-led recovery is more broad-based, as stimulus measures filter through the other parts of the economy, boosting sentiment and lifting both enterprise and consumer demand for various services. As private enterprises represent a large proportion of the service sector, the more vibrant services activities are not only important to sustain China's growth recovery, but also crucial for job creation, one of the top concerns of policy makers. Encouragingly, August's Employment Index hit 55.1, the highest level since April 2008. Going forward, we expect more policy measures to support private sector development, in order to consolidate the foundation of growth recovery."

Key points

- Incoming new business received by Chinese private sector firms rose at series record rate.
- By sector, job creation was again sharper in the service sector than in manufacturing.
- August data pointed to a strong degree of optimism amongst Chinese service providers.

Historical overview



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Notes to Editors:

The HSBC China Services PMI 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 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 (PMI) 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.

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