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

Overall activity growth eased, reflecting weaker expansions of manufacturing and services output

### Summary

Despite falling from August's twenty-three month peak, the seasonally adjusted HSBC Composite Output Index remained comfortably above the neutral level of 50.0 in September, registering 57.8, pointing to a marked expansion of business activity in the Chinese private sector. The reduced index reading reflected weaker expansions in both services and manufacturing output, with the former easing to a three-month low.

Levels of incoming new work placed at Chinese service providers increased again in September, although the expansion was slower than August's record high. This, combined with a slower rise in new work received by manufacturers, meant that overall new business growth eased slightly from a month ago.

Outstanding business growth was signalled in the Chinese private sector for the sixth month running in September. However, an acceleration of backlog clearance in the service sector acted to limit the pace of expansion.

Chinese services employment rose at a solid rate in September, although the latest increase was slightly slower than that seen in August. Even so, a faster rise in staffing levels within the manufacturing sector meant that overall employment growth accelerated to the strongest for two years.

Prices charged by service providers rose for the third month running in September, principally reflecting firmer client demand and rising costs for a range of inputs. Meanwhile, overall growth of output prices eased to a three-month low, reflecting a slower rise in manufacturers' factory gate prices.

Average cost burdens face by Chinese service providers continued to rise in September, with many survey participants linking this to increased labour-related and promotional costs. Input prices rose at a pace that was the most marked in the current six-month period of inflation. However, combined with a far weaker increase in manufacturers' cost burdens, overall input price inflation was the slowest for three months.

Business expectations in the Chinese service sector remained highly positive in September, in line with the trend seen since the inception of the series.

### Comment

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

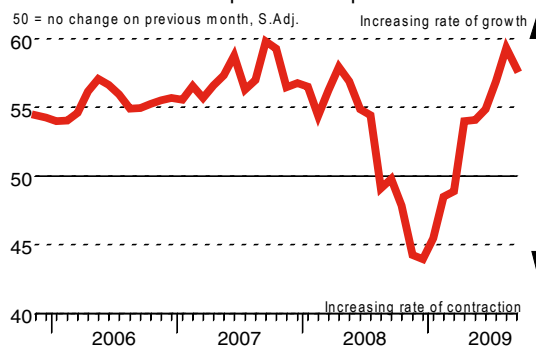
*"The headline index fell slightly from the previous month, but still remained well above the neutral level of 50.0 in September, suggesting strong growth momentum persisted in the service sector. Moreover, the Business Expectations index rose to 73.8, pointing to growing confidence on the demand recovery."*

### Key points

- Slower expansions of private sector output and incoming new business signalled.
- Job creation in the Chinese private sector the most marked for two years.
- Overall input and output prices rose at weaker rates in September.
- Optimism about the one-year outlook for services output remained substantial.

### Historical overview

HSBC China Composite Output PMI



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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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