

HSBC China Services PMI (with Composite PMI data)

Private sector activity continued to rise at a substantial rate in November, supported by robust growth of new business.

Summary

The seasonally adjusted HSBC China Composite Output Index posted 57.4 in November, up from 56.9 in the previous month, pointing to a further strong rise in private sector output. Behind the latest reading, November data signalled robust activity growth in the service sector, as indicated by an increase in the seasonally adjusted HSBC Business Activity Index to 57.1 in November.

Levels of incoming new business received by Chinese service providers rose again in November, extending the current period of rising sales to twelve months. This, combined with a robust expansion of manufacturing new orders, meant that overall new business growth remained substantial in November.

Services data signalled that further gains in new work did little to alter the trend in outstanding business levels, which continued to fall in November. In contrast, backlogs of work in the manufacturing sector rose at the fastest rate since May 2005.

November figures indicated that staffing levels in the Chinese service sector rose for the tenth month in succession, increasing at a rate that, although solid, was the least marked since July. Job creation in the manufacturing sector also eased since October, but was still the second-sharpest in the survey history.

Average input costs faced by firms operating in the Chinese services economy rose in November following a marginal reduction in the previous month. Meanwhile, manufacturers recorded a sharp acceleration in the rate of input price inflation.

Prices charged by Chinese service providers rose for the fifth successive month in November, while manufacturers raised their factory gate prices at an accelerated rate. Subsequently, composite data signalled that overall output prices rose at the sharpest rate for three months.

Business expectations in the Chinese service sector were highly positive in November, although the degree of optimism was the least marked for five months. Companies generally attributed confidence to buoyant prospects for demand and the wider Chinese economy. New product launches were also mentioned by some panellists.

Comment

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

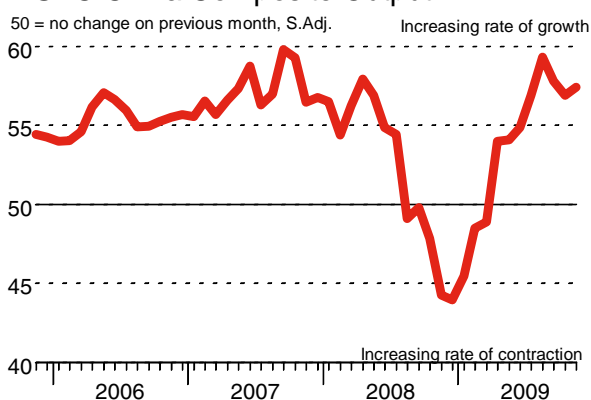
"Overall service sector performance in China remains steady and supportive for continuous job creation. Moreover, the relatively subdued Business Expectations Index seen over recent months doesn't necessarily point to underlying softness of service activities. We believe the second-round effect of stimulus measures will continue to generate new employment and uphold consumer spending in the coming quarters."

Key points

- Robust growth of private sector output and new business.
- Private sector employment continued to rise at a solid rate in November.
- Overall input and output prices rose at faster rates.

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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