

HSBC China Services PMI (with Composite PMI data)

Private sector output continued to increase robustly in December. Overall input and output prices rose at the fastest rates since July 2008.

Summary

The seasonally adjusted HSBC China Composite Output Index posted a three-month high of 57.7 in December, up from 57.4, pointing to a further strong rise in private sector output. Although slightly slower than in manufacturing, activity growth in the service sector was nevertheless robust, and the fastest for three months. This was indicated by an increase in the seasonally adjusted HSBC Business Activity Index to 57.2 in December.

Levels of incoming new work received by Chinese service providers rose in December, extending the current period of growth to thirteen months. Although the pace of expansion was the most marked since September, it was slower than those seen throughout Q3. Combined with a stronger rise in manufacturing new orders, the composite measure for new business rose to a four-month high.

December figures signalled that volumes of work-in-hand in the Chinese service sector rose for the first time since June 2007. Even so, the accumulation of backlogs was only slight. This, combined with robust growth of backlogs amongst manufacturers, meant that outstanding business in the Chinese private sector rose at a record rate in December.

Employment in the Chinese service sector rose for the eleventh successive month in December, increasing at solid rate that was the fastest for three months. However, a weaker expansion of manufacturing workforce numbers meant that overall employment growth remained little-changed on the month.

Average cost burdens faced by Chinese service sector firms rose for the second month running in December. Meanwhile, manufacturers registered a considerable rise in the average cost of their purchases. Prices charged by Chinese service sector companies were reduced for the first time in six months during the latest survey period. Even so, a sharp increase in manufacturers' factory gate prices meant that overall private sector charges rose at the fastest rate since July 2008.

Chinese service providers remained confident about the one-year outlook for business activity. Despite climbing to its most marked in seventeen months, the degree of optimism remained lower than the historical average for the series.

Comment

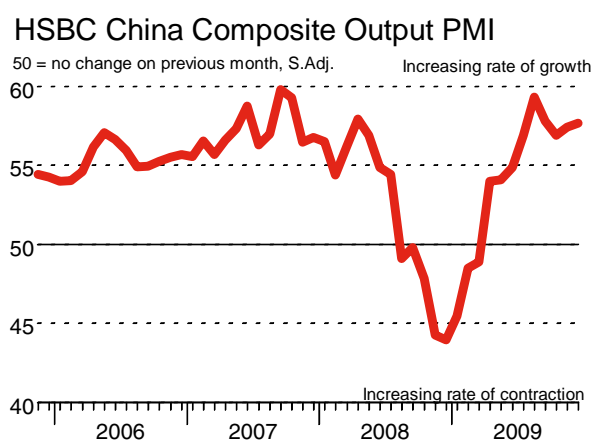
Commenting on the China Services and Composite PMI data, Hongbin Qu, Chief Economist for China at HSBC said:

"Increasing new business amid the sustained economic recovery has fostered steady expansion in the service sectors. Although faced with rising cost burdens, overall services performance should be bolstered by the improving employment situation and various pro-consumption measures in the coming months."

Key points

- New business placed at private sector firms increased at the fastest rate in four months.
- Private sector employment rose further.
- Backlogs of work in the Chinese private sector rose at the sharpest rate in the series history.

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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