

HSBC China Services PMI (with Composite PMI data)

Chinese private sector activity rose at the fastest rate in five months at the start of 2010, supported by a near-record increase in manufacturing production.

Summary

The seasonally adjusted HSBC China Composite Output Index climbed to 59.0 in January, its highest level since last August and one indicative of a substantial rise in business activity amongst Chinese private sector firms. Activity growth was primarily supported by a strong expansion of manufacturing production, although services output continued to rise markedly on the month. This was signalled by the HSBC Business Activity Index, which posted 56.8 at the beginning of 2010.

January data signalled that incoming new business taken by Chinese service providers rose again, increasing at a robust rate that was unchanged on the month. This, combined with a near-record rise in new orders received by manufacturers, meant that overall new workloads rose at the third-fastest rate in the series history.

Levels of outstanding work at Chinese service providers rose for the second successive month in January. Although only modest, the accumulation of backlogs was the fastest since the inception of the series in November 2005. Subsequently, work-in-hand in the wider private sector also rose to the greatest extent in the series history.

Staffing levels in the Chinese service sector continued to rise in January. The rate at which firms added to their workforce numbers was solid, and the fastest in four months. However, a slower rise in manufacturing headcounts meant that overall employment growth eased to the slowest since last August.

Average input costs faced by Chinese service sector firms rose for the third month running in January, increasing at a solid rate. Prices paid for raw materials were reported to have risen on the month, while panellists also noted that labour-related costs were higher than one month previously. Meanwhile, input cost inflation in the manufacturing sector accelerated to the fastest since July 2008.

Output prices set by Chinese service providers rose in January following a slight fall in the previous month. In contrast, output price inflation in the manufacturing sector was considerable, having accelerated to the most marked in eighteen months. This led the composite measure for output prices to its highest since July 2008.

Comment

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

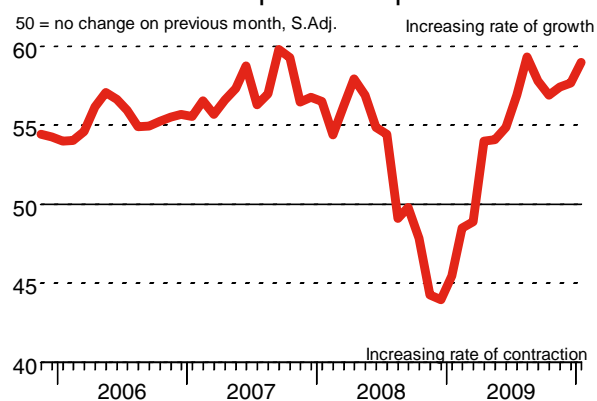
"Despite the slight moderation in the January HSBC China Services PMI, new business stayed robust in line with strengthening domestic demand. Continuous employment expansion, plus the upcoming Chinese New Year, should lend further support to consumption demand in the months ahead."

Key points

- Private sector activity rose sharply, buoyed by near-record rise in new business.
- Overall backlogs accumulated at fastest rate in the series history.
- Input price inflation in the Chinese private sector the strongest since July 2008.

Historical Overview

HSBC China Composite Output PMI



For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Dan Dan Chang, Head of Group Communications, China
Telephone +86-21-3888-1807
Email dandanchang@hsbc.com.cn

Markit

Alex Hamilton, Economist
Telephone +44-1491-461-076
Email alex.hamilton@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Email caroline.lumley@markit.com

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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