

HSBC China Services PMI (with Composite PMI data)

Private sector activity continued to rise markedly in February, albeit at a slower rate than January's near-record.

Summary

Despite falling to a four-month low of 57.3 in February, the seasonally adjusted headline HSBC Composite Output Index remained at a level indicative of a marked rise in Chinese private sector activity. The slowdown in growth mainly reflected a weaker expansion of manufacturing production, as activity growth in the service sector remained broadly unchanged on the month. This was signalled by the HSBC Business Activity Index, which fell only slightly from 56.8 to 56.7 in February.

The level of new business taken by Chinese service providers rose again in February, albeit at a reduced rate. This, combined with a slower rise in new order intakes at manufacturers, meant that overall new business growth eased in February.

Outstanding business in the service sector fell in February following two successive months of expansion. This was offset by higher backlogs in the manufacturing sector, which rose solidly. Subsequently, the overall level of work-in-hand at private sector firms increased for the eleventh month running, but at the slowest rate since September last year.

Composite data signalled that private sector employment rose in February, although the rate of job creation was the slowest since last July. This reflected weaker growth of staffing levels in both manufacturing and services.

Average cost burdens faced by Chinese private sector companies rose sharply in February, albeit at a much slower rate than in the previous month. By sector, manufacturers saw a notable slowdown in the rate of input price inflation, while service providers recorded a sharper rise in the average cost of their purchases. A similar trend was seen for output charges. Manufacturers reported raising their factory gate prices at the slowest rate in four months, but output price inflation in the service sector was the fastest since June 2008. At the composite level, this meant that private sector charges rose at the least marked rate in three months.

Data signalled that Chinese service providers expect business activity to be higher in twelve months' time. Despite easing from January's eighteen-month high, the degree of optimism remained considerable.

Comment

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

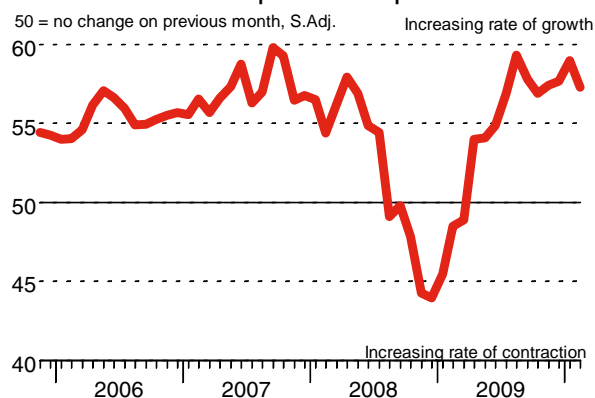
"Rising new business and continuous job creation in both services and manufacturing sectors point to an accelerating trend in economic growth. Meanwhile, inflation is picking up as buoyant demand helps to pass fast rising input costs into higher final product prices."

Key points

- Overall activity growth remained marked, despite easing to its slowest in four months.
- Private sector employment rose at a reduced rate in February.
- Input price inflation was still substantial, but eased from January's eighteen-month high.

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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