

HSBC China Services PMI (with Composite PMI data)

Private sector activity growth supported by series-record rise in new business.

Summary

At 58.4 in March, the seasonally adjusted headline HSBC Composite Output Index was at a level indicative of a steep rise in Chinese private sector activity. The acceleration of growth reflected faster rises in both manufacturing output and services activity. The latter was highlighted by the HSBC Business Activity Index, which rose to a seven-month high of 58.7.

March data indicated that new orders taken by both manufacturers and service providers rose at faster rates on the month. Subsequently, private sector new business increased at the sharpest rate since the start of the series in November 2005.

Backlogs of work at Chinese service providers were depleted for the second month running in March. This was offset by stronger growth of work-in-hand in the manufacturing sector, which meant that the composite measure for backlogs remained above the neutral 50.0 threshold in March to signal further expansion.

Staffing levels in the Chinese service sector rose again in March, increasing at a solid rate that was the most marked in almost two years. This, combined with a faster rise in manufacturing employment, meant that overall employment growth was the fastest since last October.

Average input costs faced by Chinese service providers continued to rise in the final month of Q1 2010. This was also the case in manufacturing. Composite data indicated that average input costs at private sector firms rose substantially in March. Output prices set by Chinese service providers increased further in March, albeit at only a modest rate. Manufacturers also raised their charges at a slower rate on the month. As a result, output price inflation in the private sector was the least marked in five months.

Service providers were optimistic about the one-year outlook for activity in March, with the degree of confidence the highest since July 2008. Firms widely commented that the positive outlook reflected expectations that demand will remain strong in the coming year. Some firms also mentioned business development strategies and hopes that the wider economy will continue on its rapid recovery path.

Comment

Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

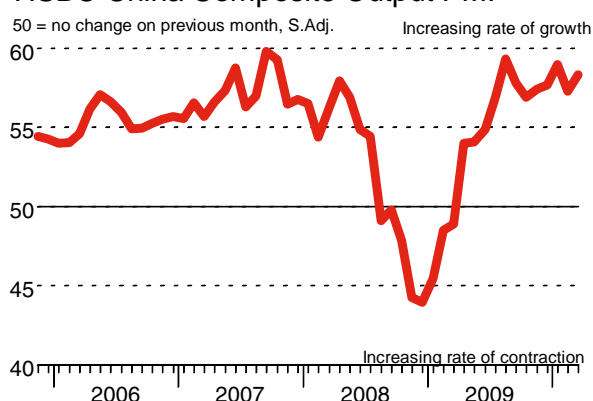
"The seven-month high services PMI, underpinned by buoyant domestic demand, has translated into a marked expansion in new jobs, which in turn will sustain a more broad-based domestic demand recovery. This, combined with stronger-than-expected exports growth, points to an acceleration in output growth and a heightened inflation risk in the months ahead."

Key points

- Fastest rise in private sector new business since the start of the series in November 2005.
- Overall employment growth the most marked in five months.
- Highest degree of optimism among Chinese service providers since July 2008.

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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