

## HSBC China Services PMI (with Composite PMI data)

Chinese private sector activity continued to lose growth momentum during May

### Summary

At 54.2 in May, the seasonally adjusted headline HSBC Composite Output Index was consistent with a solid improvement in private sector business conditions. However, overall output growth was the slowest in twelve months, reflecting weaker rises in both manufacturing output and service sector activity. The increase in the latter was the least marked for a year, with the HSBC Business Activity Index falling to 56.4 from 58.5 in April.

The volume of new work taken by Chinese service providers rose again in May. Although still marked, the rate of expansion was the slowest in twelve months. This, combined with a much slower increase in manufacturing new orders, meant that overall new business rose at the slowest rate for a year.

Outstanding business at Chinese service providers fell in May, following a slight rise in the previous month. At the composite level, this was more than offset by a solid rise in backlogs of work at manufacturers, and overall levels of unfinished work in the private sector increased moderately.

Services employment in China continued to rise in May. Despite easing since April, the rate of job creation was marked, and the second-fastest since September 2007. Alongside a slower rise in manufacturing staff numbers, this meant that overall employment growth eased to a three-month low.

Average input costs faced by Chinese service providers rose for the seventh successive month in May. However, the rate of inflation was the slowest since November 2009. A similar trend was seen in manufacturing. As a result, overall input cost inflation was the weakest since last October.

Output price inflation in the Chinese manufacturing sector eased sharply in May, while service providers raised their charges at only a modest rate. Subsequently, private sector charges rose at the slowest pace in seven months.

Business expectations in the Chinese service sector remained buoyant in May. Survey participants reported that confidence was underpinned by future project developments and business expansion plans. However, the degree of optimism was the least marked in six months, with firms taking note of newly imposed government policies.

### Comment

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

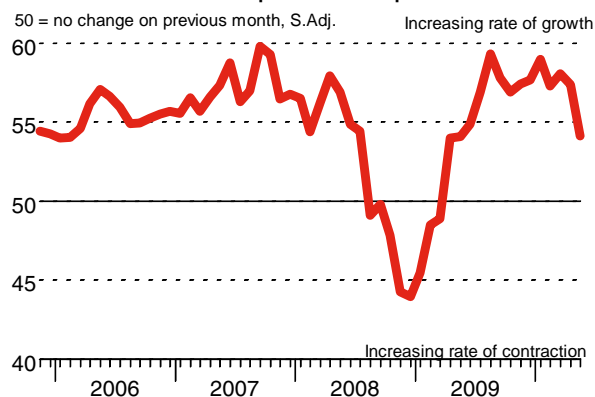
*"The slowdown in the services and manufacturing PMIs implies that the ongoing tightening measures are starting to take effect. But rising inflation means that quantitative tightening will continue, though the first rate hike may get delayed into 3Q."*

### Key points

- Overall activity growth was the slowest for a year.
- Private sector employment rose further, albeit at weakest rate in three months.
- Sharp slowdown in the overall rate of input price inflation, led by manufacturing.

### 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.

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Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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