

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

Chinese private sector activity growth the slowest in the current fifteen-month period of expansion

### Summary

At 52.2 in June, the seasonally adjusted headline HSBC Composite Output Index was consistent with a further improvement in private sector business conditions. Nonetheless, overall activity growth continued to lose momentum, with the latest rise the weakest in the current fifteen-month sequence of expansion. This largely reflected the first fall in manufacturing output since March 2009 and a slower rise in service sector activity. The latter was highlighted by a drop in the headline HSBC Business Activity Index to a fifteen-month low of 55.6.

Although new business received by service providers continued to rise in June, the rate of growth lost further ground on the strong expansion seen at the start of Q2 2010. Nonetheless, growth contrasted with the trend seen in the manufacturing sector, where new orders fell for the first time in fifteen months. As a result, the gain in total new business (manufacturing and services) was only modest.

According to the latest data, a faster fall in service sector outstanding business, coupled with renewed backlog clearance in manufacturing, meant that overall work-in-hand fell for the first time since March 2009.

Overall employment growth eased marginally in June, but was still solid. This was underpinned by job creation in the manufacturing and service sectors.

Composite data pointed to a substantial easing in price pressures in June. This was primarily led by the manufacturing sector, which saw both factory gate charges and average input costs fall for the first time in one year. Conversely, service sector charges rose modestly in June, and average cost burdens increased at a faster rate than in the preceding month.

Chinese service sector companies remained confident about the one-year outlook for business activity in June. Although still considerable, the degree of optimism was the weakest in fifteen months. Positive expectations were linked to hopes that new business growth will gain traction in the forthcoming year, while future plans to expand business operations were also mentioned. Conversely, those respondents that were pessimistic about future activity levels cited state policies aimed at curbing the overheated property market.

### Comment

Commenting on the China Services and Composite PMI data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

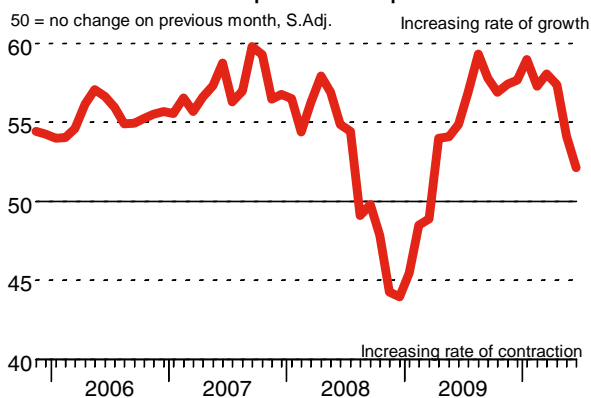
*"The slowdown in services activities reflects the effect of property market tightening measures. This, combined with the moderating manufacturing production, implies the economy is cooling off sequentially. But the continuously improving labour market and massive ongoing investment should support around 9% growth in 2H."*

### Key points

- Overall activity growth lost further momentum in June, led by decline in manufacturing output.
- At the composite level, new business growth was only modest.
- Sharp slowdown in input price inflation; output charges fell for the first time in a year.

### 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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