

HSBC China Services PMI™ (with Composite PMI data)

Lacklustre growth of Chinese private sector activity reflected a further fall in manufacturing output

Summary

At 52.6 in July, up slightly from 52.2 in the previous month, the seasonally adjusted headline HSBC Composite Output Index was at a level indicative of a modest improvement in private sector business conditions. The subdued rate of growth contrasted with the near-record expansion seen at the beginning of 2010. This primarily reflected a second successive monthly fall in manufacturing output, as services activity growth remained marked. The latter was highlighted by a rise in the seasonally adjusted HSBC Business Activity Index to 56.3.

The level of new business received by Chinese service providers rose again in July, extending the current period of growth to twenty months. The rate of expansion was marked, and the fastest in three months. In contrast, manufacturing new orders fell at the fastest rate since March 2009. As a result, total new business growth remained relatively muted.

At the composite level, backlogs of work decreased for the second month running in July, albeit only marginally. This mainly reflected a further drop in outstanding business in the service sector.

July data signalled that staffing levels in the Chinese service sector continued to rise in the latest survey period. The rate at which companies added to their staff numbers was solid, and slightly faster than in June. Nonetheless, overall employment growth eased for the fourth successive month in July. Underpinning this was a slower rise in manufacturing employment.

Composite data pointed to a further easing in price pressures in July, with falls in both input prices (for the first time since May 2009) and output charges (for the second time in as many months). In both cases, this predominantly reflected falling prices in the manufacturing sector.

Latest data indicated that Chinese service providers were highly optimistic about the one-year outlook for business activity. However, the degree of positive sentiment was the second-lowest in sixteen months. The positive outlook was linked by panellists to expectations of future new business wins.

Comment

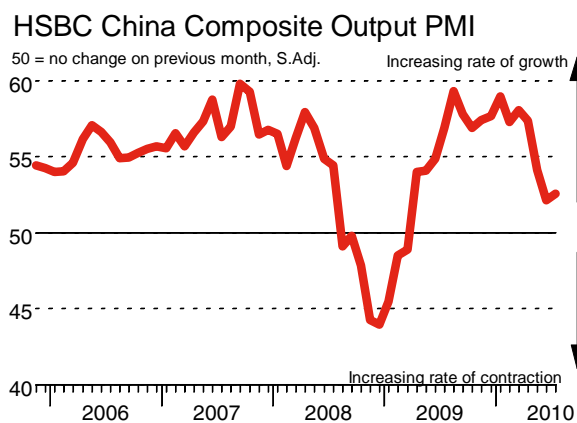
Commenting on the China Services and Composite PMI data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"This improvement in the July service PMI reading, though modest, reflects the resilience of the domestic part of the economy, in particular consumer-related sectors. Combined with the sustained recovery in the labour market, this should cushion the economic slowdown in the coming quarters."

Key points

- Overall activity growth stabilised in July, despite a further fall in manufacturing output.
- Total new business growth only modest.
- First fall in private sector input prices since May 2009.

Historical Overview



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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.

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