HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC China Services PMI™ (with Composite PMI data)

Output growth quickens and inflation builds, according to latest China PMI data

Summary

Chinese private sector output growth gathered momentum at the start of the final quarter, with faster rates of expansion recorded across both the manufacturing and service sectors. The seasonally adjusted HSBC Composite Output Index climbed from 54.3 to a six-month high of 57.4 in October.

Chinese service sector activity rose markedly in October, with the rate of growth quickening from September's nineteen-month low. Highlighting this, the headline seasonally adjusted Business Activity Index rose from 55.2 to 56.4 in October, but remained below the long-run series average (57.8).

New business received by Chinese service providers continued to rise in October, although the rate of growth eased to the weakest in four months. At the composite level, slower growth in services was offset by a substantial increase in new orders received by manufacturers and, as a result, overall new work rose at the fastest rate since April.

Services employment rose further in October. The rate at which companies added to their workforce numbers was solid, but slightly slower than the average for 2010 so far. In contrast, manufacturing employment fell for the first time in nineteen months. Subsequently, private sector staffing levels rose at the slowest rate since June 2009.

Composite data signalled that average costs burdens rose substantially in October, and at the strongest rate since July 2008. Similarly, output prices increased at the sharpest pace for twenty-seven months at the composite level. Growing price pressures were centred on the manufacturing sector in the latest survey period.

Chinese service providers remained confident about future activity growth in October. Positive sentiment was supported by upbeat economic prospects and strong new business forecasts. Nonetheless, the degree of optimism dipped to the third-lowest since the start of the series in November 2005. Some companies noted that the end of the 2010 Shanghai Expo may lead to lower levels of business activity in the coming year. Government policies aimed at curbing growth of the property sector were also cited by a number of panellists as a reason for pessimism.

Comment

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

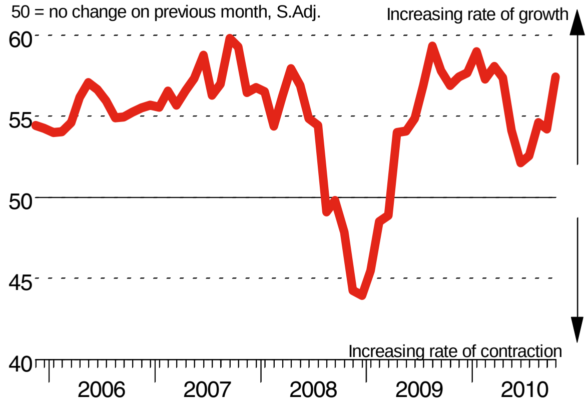
"The modest improvement in the HSBC China Services PMI translated into faster job creation. This should in turn provide solid support to private consumption and demand for services in the coming months, despite the ongoing tightening of the property market."

Key points

- Private sector output growth hit six-month high in October, led by manufacturing.
- Overall employment growth the slowest since June 2009.
- At the composite level, input price inflation quickened to the strongest since July 2008.
- Service sector business confidence the lowest since the height of the global financial crisis.

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.

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.

HSBC:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

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