

HSBC China Services PMI™ (with Composite PMI data)

Chinese private sector activity growth slows in January, but inflation remains high

Summary

Growth of China's private sector continued to cool at the start of 2011, with business activity rising at the slowest rate in four months. Posting 54.6, down from 55.2 in December, the seasonally adjusted HSBC Composite Output Index pointed to a solid expansion of private sector activity.

Manufacturing output rose robustly in January. However, this was offset by only a modest expansion in the service sector, where activity growth eased to the third-lowest in the five-year survey history. This was signalled by the seasonally adjusted HSBC Business Activity Index falling to 52.0 from 53.1 in the final month of 2010.

In contrast, new business received by private sector firms rose at an accelerated rate in January, as manufacturing new order growth strengthened. This was not replicated in services, however, with new business growth easing for the fifth successive month to a twenty-five month low. Service providers linked the slower increase in new orders to relatively lacklustre client demand.

Service providers continued to hire additional staff in January. However, the rate of job creation eased to a one-and-a-half year low, reflecting relatively subdued new order growth. This, combined with a dip in manufacturing employment growth, meant that the overall rate of private sector job creation eased since December.

January data pointed to another robust increase in input prices faced by Chinese service providers. At the composite level, cost inflation eased to a four-month low, largely reflecting a weaker increase in manufacturers' purchasing costs. That said, inflation in the manufacturing sector remained considerable, and much faster than in services.

Private sector charge inflation held steady at a robust rate in January, as a faster increase in services was offset by a weaker rate of factory gate price inflation in manufacturing. Nonetheless, similar to the trend for input prices, manufacturers raised their charges to a far greater extent than service providers.

Chinese service sector companies were confident about the outlook for business activity in the year ahead. However, the degree of optimism was the fourth-lowest in the survey history. Positive sentiment was linked to future new product developments, and hopes that the economic recovery will continue at a brisk pace. Conversely, respondents that were pessimistic about future activity levels cited expectations that competition for new business will strengthen in the coming year.

Comment

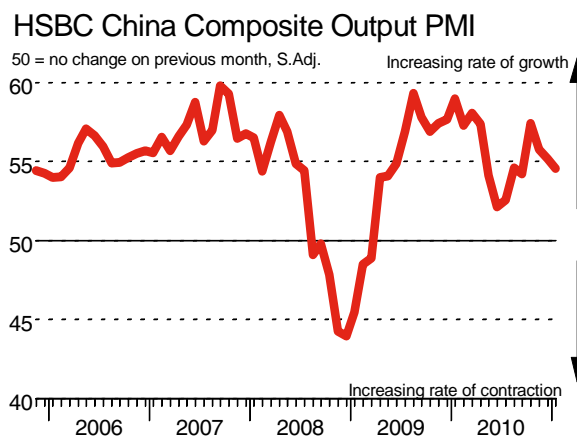
Commenting on the China Services and Composite PMI data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"It is surprising to see the Services PMI continuing to soften to a level close to that seen during the financial crisis. Property tightening along with overall monetary tightening is likely to be the major drag on sentiment and business activities. That said, no worries about growth, because of the strength in consumer spending and massive ongoing investment projects. In fact, it is helpful to contain inflation in services."

Key points

- Private sector activity growth eases to four-month low.
- Overall cost inflation cools, but remains strong.
- Service sector business optimism the fourth-lowest in series history.

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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