

HSBC China Services PMI™ (with Composite PMI data)

Chinese private sector activity growth slows markedly in February, but price pressures intensify

Summary

Growth of China's private sector cooled markedly in February, with growth the lowest in the current period of expansion, which now extends to nearly two years. This was signalled by the seasonally adjusted HSBC Composite Output Index falling from 54.6 to 51.9.

This reflected a particularly steep slowdown in manufacturing and lacklustre growth of service sector activity. Posting 51.9 in February, down slightly from 52.0 in the previous month, the seasonally adjusted HSBC Business Activity Index was at a level indicative of only a modest rate of activity growth in China's service sector.

New business received by Chinese service providers rose further in February. However, the rate of growth eased for the sixth successive month to the third-lowest in the series history. This, combined with a weaker expansion in manufacturing new orders, meant that growth of private sector new business weakened to the lowest since July 2010.

Staff numbers in China's service sector rose for the twenty-fifth successive month in February, with growth accelerating slightly since January. However, this was partly offset at the composite level by a marginal fall in manufacturing employment. As a result, private sector employment growth was only slight, and eased to the slowest since May 2009.

Output prices set by service providers rose again in February, with the pace of inflation quickening to the sharpest for a year. Similarly, output prices rose at an accelerated rate at the composite level, as charge inflation at manufacturers' factory gates quickened to a three-month high. Respondents to both the services and manufacturing PMI surveys mentioned passing on higher costs to customers through increased output charges.

February data pointed to another marked rise in average input costs faced by Chinese service sector firms. However, the rate of cost inflation was much stronger in the manufacturing sector, where purchase prices rose at the fastest rate since last November. Consequently, the overall rate of cost inflation quickened to a three-month high in February.

Service providers were confident about the one-year business outlook in February. Although down on the long-run trend, the degree of optimism was the highest for six months. Expectations of further gains in new business and company expansion policies underpinned respondents' positive sentiment regarding the twelve-month outlook for overall activity.

Comment

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

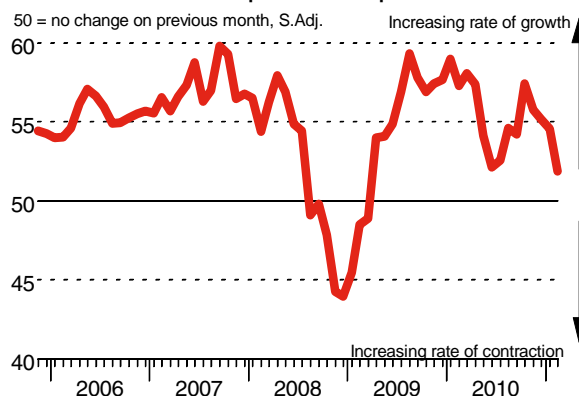
"China's service sector continued to expand modestly in February, generating faster job creation. Slower growth of services new business will help to curb inflation while the tight labour market and rising business expectations warrant the robustness of services activities in the coming months."

Key points

- Private sector activity rises only modestly in February.
- Overall cost inflation hits three-month high.
- Service sector business optimism improves to highest in six months.

Historical Overview

HSBC China Composite Output PMI



For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China & Co-Head
of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Group Communications, China
Telephone +86 21 3888 1251
Email dianayqmao@hsbc.com.cn

Markit

Alex Hamilton, Economist
Telephone +44-1491-461-076
Email alex.hamilton@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44781 581 2162
Email caroline.lumley@markit.com

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'.

About Markit:

Markit is a leading, global financial information services company with over 2,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

The intellectual property rights to the HSBC China Services and Composite PMI™ provided herein is owned by Markit Group. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.