

HSBC China Services PMI™ (with Composite PMI data)

Private sector activity growth eases to only modest pace in April. Input cost inflation cools.

Summary

Growth of China's private sector moderated in April, with the overall expansion the slowest in the current twenty-five month period of growth. This was signalled by the seasonally adjusted HSBC Composite Output Index falling from 52.7 to 51.7, a reading markedly down on the long-run series average of 54.8. Highlighting the loss of growth momentum since the start of Q4 2010, private sector output growth has now eased in five of the past six months.

The wider slowdown reflected weaker output growth in both manufacturing and services, with the latter recording the slowest rate of expansion since December 2008. Posting 51.6 in April, down fractionally from 51.7 in March, the seasonally adjusted Business Activity Index pointed to only a modest rate of activity growth in China's service sector.

New business received by Chinese service providers rose again in April, although the pace of expansion was only modest. A similarly lacklustre rate of new order growth was recorded in the manufacturing sector.

Service sector employment in China rose during April, with the rate of jobs growth accelerating slightly since March. This, coupled with a faster rate of employment growth in manufacturing, meant that private sector job creation was the fastest in three months.

Rates of input cost inflation eased across both sectors monitored by the PMI surveys in April. Manufacturers continued to record a sharper increase in input prices than their service sector counterparts. Across both sectors, input cost inflation slowed to an eight-month low.

Service providers continued to pass on higher input costs to clients through increased output charges in April, with charge inflation quickening slightly from one month earlier. This was offset by a slower rise in output prices set by manufacturing firms. Consequently, private sector charge inflation eased to the slowest since last August.

Chinese service providers remain confident regarding the one-year outlook for activity in April. New product developments and buoyant economic prospects were cited by panellists as having supported positive sentiment in the latest survey period. Around 36% of companies expected business activity to be higher in twelve months' time, versus less than 3% that anticipate a fall. That said, the degree of optimism was weak in the context of historical data, with the relevant index almost eight points lower than the long-run series average.

Comment

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

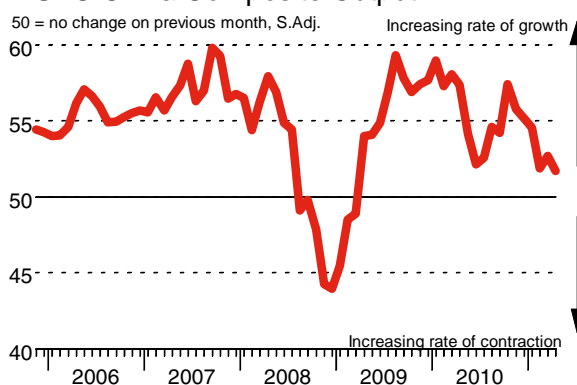
"April Services PMI results show modest expansion in services activity and sustained price pressures. The gradual slowdown in growth is helpful for checking inflation pressures, which remain the top macro risk this year. But to tame inflation, Beijing needs to keep tightening for another 3-4 months."

Key points

- Private sector output rises at the slowest rate in twenty-five months.
- Slowdown in overall growth broad-based across both manufacturing and services.
- Input cost inflation slows at the composite level.

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.

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