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## HSBC China Services PMI™ (with Composite PMI data)

Composite data shows only marginal expansion of Chinese private sector activity in August

### Summary

August data pointed to another marginal expansion of Chinese private sector activity, with the headline seasonally adjusted HSBC Composite Output Index recording 50.4. The index was unchanged on July's 28-month low, and much lower than the long-run trend for the series.

At the composite level, renewed growth of manufacturing output was offset by a slower expansion of services activity in August. The latter was signalled by a fall in the seasonally adjusted Business Activity to a series-record low of 50.6, a level indicative of only a marginal rate of activity growth in the service sector.

New work received by service providers rose for the thirty-third month running in August, although the pace of growth eased to the slowest in that sequence. Some panellists mentioned that new business growth had been restricted by government policies aimed at limiting property purchases. Combined with a fall in new work taken by manufacturers for the first time since July 2010, latest data pointed to a near-stagnation of new order levels across both sectors.

August data signalled that service sector firms made inroads into their backlogs of work. Although only modest, the rate of decline in outstanding work was the fastest since October 2010. In contrast, unfinished business in the manufacturing sector rose at the fastest rate in four months.

Service providers added to their staff numbers at only a marginal rate in August. The latest increase in employment was the slowest in the current period of job creation, which now extends to more than two-and-a-half years. This, coupled with a fractional increase in manufacturing employment, meant that overall staff numbers continued to rise at only a marginal pace in August.

Meanwhile, on the prices front, average cost burdens faced by service providers continued to rise markedly in August, primarily reflecting pressure from higher salary payments. A similarly marked rate of input price inflation was recorded in the manufacturing sector.

Despite marked cost rises, service sector firms increased their output prices only marginally in August, as strong competitive pressures restricted their pricing power. Manufacturers recorded a modest rise in factory gate charges. As a result, composite data signalled a relatively subdued rate of output charge inflation.

Despite weakness in activity and demand, latest data highlighted an increase in service sector business confidence, with the degree of optimism the highest in four months. According to respondents, confidence was supported by expectations of new product launches and the success of commercial activities. Nonetheless, the index measuring changes in sentiment was almost 10 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:

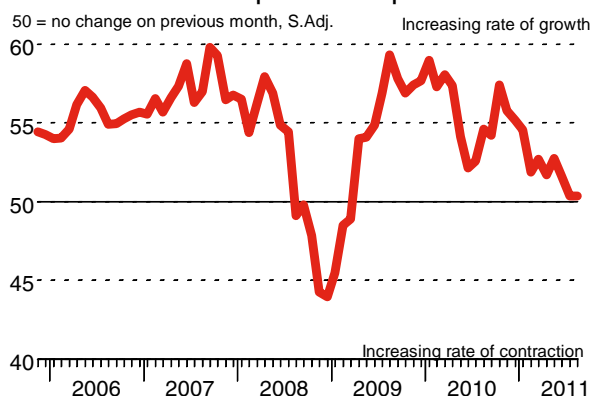
*"Slowing new business inflows drove the HSBC China Services PMI reading to the lowest level since the series began in November 2005. This reflects the effect of property and credit tightening measures. That said, the property market is unlikely to collapse not least because of Chinese households' low leverage ratio and the fact that credit tightening is likely approaching an end. This, plus resilient consumer spending, suggests China's service sector is likely to see a moderation in growth, and not a meltdown."*

### Key points

- Overall growth unchanged on July's 28-month low
- Near-stagnation of total new order levels
- Service sector business optimism rises to four-month high, but remains well below trend

### 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

Rachel Harling, Corporate Communications  
Telephone +44-20-7064-6283  
Mobile +44-782-789-1072  
Email rachel.harling@markit.com

**Notes to Editors:**

The HSBC China Services *PMI*<sup>TM</sup> 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*<sup>TM</sup> 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*<sup>TM</sup> (*PMI*<sup>TM</sup>) 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](mailto:economics@markit.com).

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