

HSBC China Services PMI™ (with Composite PMI data)

Activity growth across China's combined manufacturing and service sector the strongest in four months

Summary

February data signalled renewed growth of business activity across the combined manufacturing and service sector, with the HSBC Composite Output Index up from 49.7 to 51.8. The overall expansion reflected a broad stabilisation of manufacturing production and stronger growth of service sector activity. The latter was signalled by a rise in the seasonally adjusted Business Activity Index from 52.5 to 53.9 in February. Although the strongest in four months, the pace of growth of services output was again below the long-run series average.

Behind the latest increase in service sector business activity was a stronger expansion of incoming new orders. Despite remaining below the long-run series average, the rate of new business growth reached an eight-month high in February. In contrast, the level of new work placed at manufacturing firms fell for a fourth month in succession.

The latest service sector findings signalled that new business wins did little to alter the trend in outstanding business levels, which remained broadly stable over the month. A similar tendency was seen in manufacturing and, as a result, at the composite level.

Greater inflows of new business contributed to a modest rise in service sector staff numbers. Planned business expansions were also reported to have driven staff recruitment. The rate of job creation was identical to that registered by companies responding to the manufacturing PMI survey.

February data signalled a solid increase in average costs faced by Chinese service providers, with the pace of inflation reaching a three-month high. This, coupled with a rise in manufacturers' cost burdens, meant that higher input prices were recorded at the composite level for the first time since October last year.

Despite higher average costs, service sector companies left their output charges broadly unchanged compared to one month earlier. With manufacturers noting a marked easing in the rate of output price discounting, overall average tariffs fell at the slowest rate in the four-month period of reduction.

Looking ahead, Chinese service providers maintained a high level of confidence with regard to future prospects. Around 32% of panellists anticipated growth of activity during the coming year, citing continued positive demand conditions, increased promotional activity and ongoing business expansion programmes. Although the

strongest in four months, the overall degree of positive sentiment remained weak in the context of historical data.

Comment

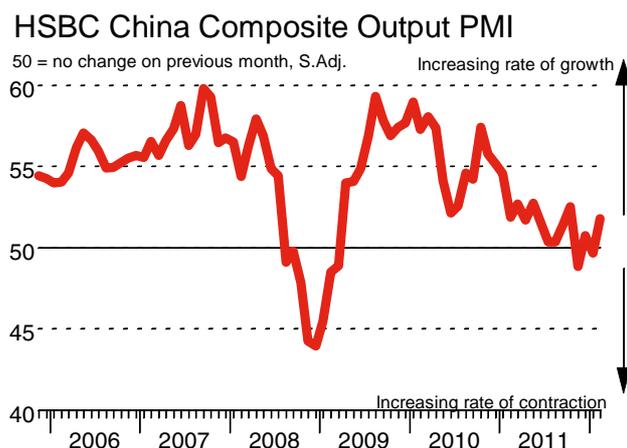
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Growth of services activities picked up to the fastest pace in four months, thanks to a notable gain in new business. This helped to lift new hiring and business expectations. That said, combined with the still weak manufacturing activities amid slowing external orders, the economy is still struggling, likely to grow by around 8% y-o-y in 1Q before more easing measures filter through into 2Q."

Key points

- Modest rise in overall output signalled during February
- Renewed employment growth recorded at the composite level
- Total input costs rise for the first time since last October

Historical Overview



Sources: Markit, HSBC.

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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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