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HSBC China Services PMITM (with Composite PMI data)

Chinese firms reported little change in business activity during March

Summary

March data pointed to a stagnation of business activity in China. This was indicated by a decrease in the HSBC Composite Output Index from 51.8 to 49.9. There were divergences by sector. Manufacturers reported a moderate reduction in factory output – the second-sharpest in three years – while service providers noted another solid expansion of business activity at their units. The latter was highlighted by a seasonally adjusted Business Activity Index reading of 53.3 in March. This was down from 53.9 in February, and lower than the long-run trend for the survey (56.7).

The level of new business placed at Chinese service providers rose again in March, extending the current period of growth to 40 months. In contrast, manufacturing firms reported a fifth successive month-on-month decline in new orders.

In spite of continued new business wins, service sector companies raised their staff numbers at only a fractional rate in March. Jobs growth was the weakest in the current period of expansion, which now extends to 38 months. This, coupled with job shedding in the manufacturing sector, meant that staff numbers fell for the first time in three years at the composite level.

The slower rise in service sector staff numbers also reflected limited pressure on operating capacity, with backlogs of work in the sector broadly unchanged from one month earlier. Composite data showed outstanding business rising marginally in March.

The latest survey findings showed average costs faced by service providers rising further, with inflation holding broadly stable at a solid rate in March. With manufacturers noting a slight uptick in the rate of input cost inflation, total input prices rose at the fastest rate in five months, albeit modestly.

Service sector companies increased their output charges in response to higher average input costs, with the pace of inflation accelerating to the fastest in 25 months. Combined with a modest drop in selling prices set by manufacturers, composite data showed a marginal increase in average tariffs.

Chinese service sector firms reported a high level of optimism regarding the outlook for activity in one year's time. Confidence stemmed from plans for company expansion and expectations of economic growth in the wider Chinese economy. Despite improving to an 11-month high, the degree of optimism was weaker than the long-run trend for the survey. This in part reflected

state-led policies aimed at cooling growth of the property sector.

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 activity remains steady. However, combined with the further slowdown of manufacturing output, the overall economic growth is losing some steam as export orders are weakening. While this is likely to drag on industrial production growth, it also has started to slacken the job markets. All these call for further easing measures, while inflationary pressures should remain relatively contained in the coming months."

Key points

- Service sector growth offset by weakness in manufacturing
- Composite data point to first fall in staff numbers in three years
- Service sector business confidence the highest in 11 months

Historical Overview

HSBC China Composite Output PMI



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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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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