

HSBC China Services PMI™ (with Composite PMI data)

China sees renewed expansion of business activity in April

Summary

April data pointed to renewed growth of business activity in China, with the HSBC Composite Output Index rising from 49.9 to 51.4. The latest index reading nonetheless signalled a modest rate of expansion. At the sector level, manufacturers recorded a marginal drop in output, while service providers noted stronger growth from one month earlier. The latter was highlighted by a rise in the seasonally adjusted HSBC Services Business Activity Index from 53.3 to a six-month high of 54.1 in April. Where a rise in service sector activity was registered, panellists commonly linked growth to higher intakes of new business. Some survey participants also commented on a general improvement in market conditions.

April data signalled a further rise in new orders placed at Chinese service providers. Although below the long-run trend for the survey, the rate of new order growth was solid, and the sharpest in ten months. Meanwhile, composite data pointed to the strongest expansion of new business since October 2011.

Despite a further rise in new orders, backlogs of work in the Chinese service sector fell marginally during April. The index measuring trends in outstanding business has now recorded a sub-50 reading in each of the past three months. With manufacturers recording a slight rise in work-in-hand, the rate of backlog accumulation at the composite level was unchanged since March.

Staff numbers in the Chinese service sector rose during April, extending the current period of growth to 39 months. Although modest, the rate of job creation in the sector was the sharpest since November 2011. This was partly offset at the composite level, however, by the sharpest rate of decline in manufacturing employment for 37 months.

Input price inflation in the Chinese service sector accelerated to a strong rate in April. Moreover, the latest rise in average costs was the sharpest since August 2010. This drove cost inflation at the composite level to the strongest in six months.

Service sector companies left their output charges broadly unchanged in April. Some firms mentioned reducing charges in response to state regulation. This was particularly the case in the Financial Intermediation sector. Meanwhile, panellists that reported a rise in output prices largely linked this to passing higher costs on to clients.

April data showed service sector firms again expressing confidence in the one-year business outlook, with the

degree of optimism the strongest in 12 months. Reasons for positive sentiment included expectations of strong new order growth, better economic conditions and, in some cases, business expansion plans.

Comment

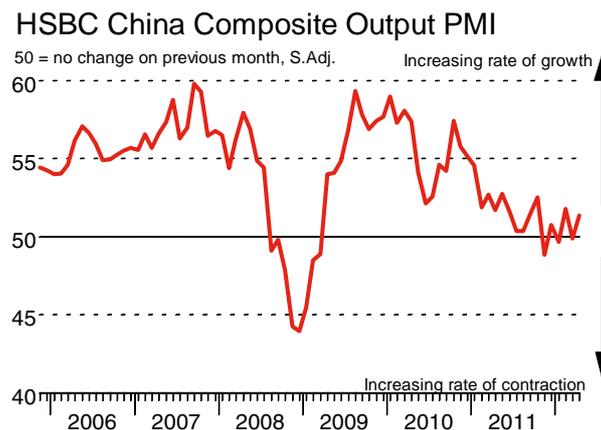
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Growth momentum of services sectors started to pick up, thanks to stronger new business flows amidst improving business conditions. This, plus the modest improvement within the manufacturing sector, confirms our view that the Chinese economy is likely to bottom out in 2Q. As inflation pressures remain contained, we expect further monetary easing to boost growth in the coming months."

Key points

- Composite data point to only modest expansion of business activity in April
- Input price inflation at the composite level the highest in six months
- Service sector business confidence the highest in 12 months

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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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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