HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 10:30 (Beijing), 5 June 2012

compiled by markit

HSBC China Services PMI™ (with Composite PMI data)

Composite data point to sharpest expansion of activity since October 2011

Summary

May data signalled another month of business activity growth in China. This was signalled by the HSBC Composite Output Index posting a plus-50 reading for the second month in a row (51.9 compared to 51.4 in April). Although only modest, the rate of expansion in business activity was the sharpest in seven months.

Activity growth at the composite level was supported by a stronger expansion of services output. The rate of activity growth was marked, and the sharpest in 19 months. At 54.7, however, the latest seasonally adjusted HSBC Business Activity Index reading was below the long-run trend for the series (56.7).

New business wins were often cited by panellists as the main factor behind the latest increase in services output. Indeed, the pace of new order growth was marked, and the fastest since October 2010. Composite data meanwhile pointed to a marginal expansion of incoming new business.

Despite the increase in new orders, backlogs of work in the Chinese service sector continued to fall during May. However, the rate of backlog depletion remained marginal. This was offset by an accumulation in manufacturers' backlogs of work at the composite level.

Service providers reported another month of employment growth in May, although the rate of job creation was only modest. Moreover, the latest increase in staff numbers was weaker than the long-run trend average for the survey. This, coupled with a reduction in the size of the manufacturing workforce, contributed to another marginal decline in employment at the composite level.

May data signalled a marked rise in average costs faced by Chinese service providers, extending the current period of inflation to 31 months. With manufacturers recording a decline in purchasing costs, input cost inflation at the composite level eased to only a marginal rate.

Despite of the rise in input costs, service providers reduced their average tariffs during the month. The latest decrease in selling prices was the second in as many months. However, the rate of output charge discounting remained only marginal. Meanwhile, a moderate decline in factory gate charges was recorded by May's manufacturing survey.

Service providers were again optimistic regarding the one-year business outlook in May. The degree of confidence was strong, with the index measuring business expectations only slightly lower than April's one year-high. Companies linked positive sentiment to expectations of new business wins and better economic conditions. Companies also expect business expansion plans to supported growth in the coming year.

Comment

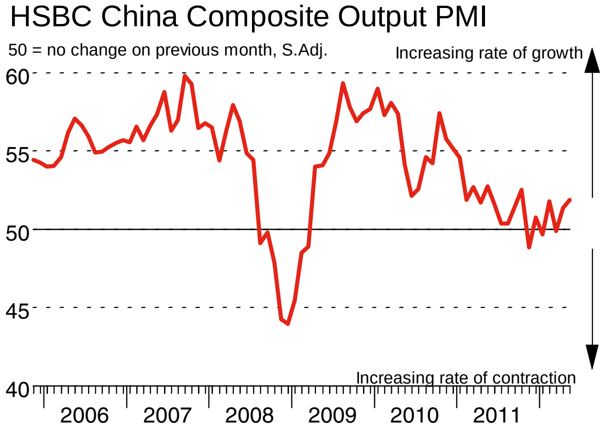
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Growth of services activity picked up again in May, thanks to a sustained gain in new business. This should reduce the fears of a sharp growth slowdown. Going forward, the expected fast delivery of a mix of supportive measures should filter through to further boost services output and employment."

Key points

- Composite data pointed to the strongest expansion of activity in seven months
- Input cost inflation at composite level eases to marginal rate
- Service sector optimism remains strong

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.

The *Purchasing Managers' Index™ (PMI™)* 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.

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Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics