

HSBC China Services PMI™ (with Composite PMI data)

Activity growth eases to near-stagnation in June

Summary

Latest survey findings showed growth of business activity (covering manufacturing and services) easing to a marginal rate in June. The HSBC Composite Output Index posted 50.6, down from 51.9 in May, and was the lowest reading in three months. The slowdown at the composite level reflected a sharper decline in manufacturing output and a moderation of activity growth in the service sector. The latter was highlighted by the HSBC Business Activity Index falling from 54.7 to a ten-month low of 52.3 in June.

Moreover, the pace of new order growth in China's service sector eased since the month before, with the index measuring trends in overall new work at a ten-month low. This, coupled with an accelerated decline in new orders placed at goods producers, meant that overall new work fell for the first time in 2012 so far.

Largely in response to muted growth of new business, backlogs of work in the Chinese service sector decreased for a fifth successive month during June. The rate of decline in work outstanding remained marginal, however. Goods producers also recorded a slight rate of backlog depletion in June.

Service providers further added to their staff numbers in June, although the rate of jobs growth eased to only a marginal rate. Moreover, the latest increase in headcounts was the third-weakest in the current 41-month period of growth. Composite data pointed to the fourth successive month of job shedding in June.

Average costs faced by service providers continued to rise in June, albeit marginally. In addition, the rate of input price inflation was the weakest in the current 32-month period of higher costs. In contrast, manufacturers recorded a sharp and accelerated decline in purchasing costs. As a result, input prices fell at the sharpest rate in 39 months at the composite level.

Reduced input price pressures enabled service providers to lower their average tariffs in June. Although modest, the pace of output price discounting was the sharpest in 38 months. With goods producers reducing factory gate charges at a sharp rate, total selling prices decreased at the fastest pace since March 2009.

Chinese service providers expressed continued optimism in the short-term business outlook in June, with positive sentiment linked by panellists to expectations of new business wins. However, the degree of optimism remained weak in the context of historic data. Companies cited economic uncertainty as having dampened business confidence.

Comment

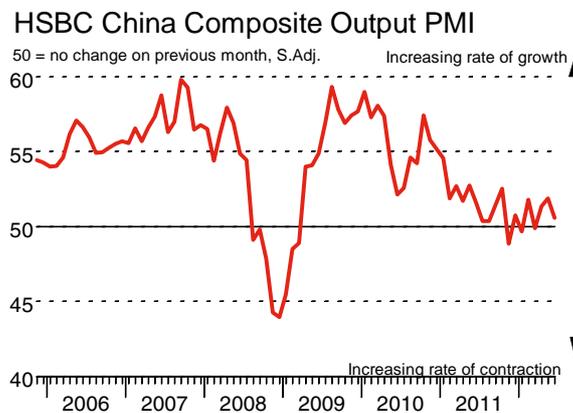
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Services activities softened in June due to slowing new business flows, which translated into only marginal growth of employment. This, plus the ongoing slowdown of manufacturing sectors, points to growing pressures on the jobs market – the last thing Beijing policy makers want to see. But with inflation also falling fast, we believe Beijing has sufficient room to step up easing and revive domestic demand."

Key points

- Overall new business down for first time in six months
- Composite data showed input prices falling at the fastest rate in 39 months
- Service sector optimism remains subdued

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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