

## HSBC China Services PMI™ (with Composite PMI data)

### August data point to stagnation of business activity

#### Summary

August's survey findings showed that business activity (covering manufacturing and services) in China was broadly unchanged since the month before. This was signalled by the HSBC Composite Output Index falling from 51.9 to 49.9 in August. The stagnation of growth reflected a renewed decline in manufacturing output and a slower expansion of service sector activity. The latter was highlighted by a fall in the HSBC Business Activity Index from 53.1 to 52.0.

Behind the weaker rise in service sector activity was a slower increase in new order volumes, with the rate of expansion the weakest for a year. With new orders placed at goods producers falling in August, overall new work declined at the fastest rate since November of last year.

Sub-par new order growth meant that capacity in China's service sector was little tested during the month, with backlogs of work falling for the seventh month running. However, the rate of backlog depletion was only marginal. Meanwhile, a modest decline in outstanding business was recorded by goods producers during the month.

Service providers reported another month of employment growth in August. Despite accelerating to the steepest since November of last year, the rate of job creation was slightly weaker than the long-run series average. In contrast, manufacturers reported the sharpest decline in employment since March 2009.

August data signalled a solid rise in average costs faced by Chinese service providers, extending the current period of inflation to 34 months. Conversely, goods producers reported another sharp decline in input prices over the month.

Selling prices set by service sector firms were little changed since the month before, while manufacturers reported a sharp reduction in factory gate charges.

When questioned about the prospects for activity at their units over the next 12 months, service providers in China expressed optimism regarding the business outlook. Survey respondents mentioned hopes that demand will strengthen over the coming year. There were also reports of new product developments and business expansion plans. However, the extent of positive sentiment was the lowest in eight months, and muted in the context of historical data.

#### Comment

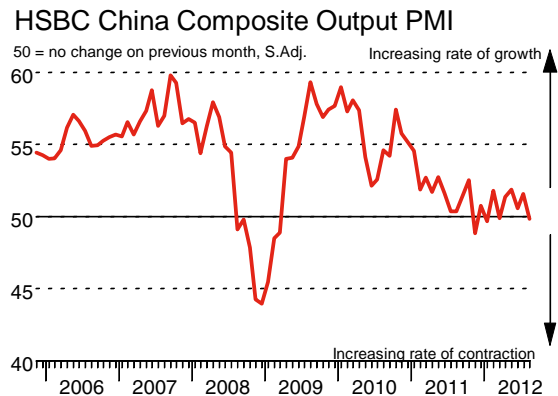
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The HSBC services PMI moderated in August thanks to slower new order intakes, which recorded a one-year low. This, plus a nine-month low of new orders sub-index (including domestic and external demand) in HSBC's manufacturing PMI, suggests that the main risk confronting China's economy is still to the downside. Beijing is expected to do more to counter balance the external shock."*

#### Key points

- Overall activity little changed in August
- Total new business down to greatest extent since November 2011
- Service sector optimism dips to eight-month low

#### 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](mailto:economics@markit.com).

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