HSBC Purchasing Managers' Index™ Press Release

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HSBC China Services PMITM (with Composite PMI data)

Services activity expands at solid, albeit weaker, pace in October

Summary

The HSBC Composite PMI data (which covers both manufacturing and services) signalled a marginal expansion of business activity during October. This was the second successive monthly rise in output, and the rate of growth was broadly similar to September. The HSBC Composite Output Index posted 50.5 in October, up from 50.3 in September.

However, sector divergences were apparent. Production contracted in the manufacturing sector for the third month in a row, while services activity continued to rise. The HSBC Business Activity Index, recorded 53.5 in October, down from 54.3, suggesting that the rate of expansion in services activity was solid, but slower than in September.

New business increased in the service sector during October at a moderate pace. However, growth of new business was slower than in September and weaker than the long-run series average. There was renewed growth of new orders placed at manufacturing firms during October. This led to the fastest rise in composite new orders for a year.

Outstanding business continued to fall across both sectors in October. Backlogs of work in the service sector fell at a more pronounced pace, the quickest in two years, whereas work-in-hand fell at a marginal rate in the manufacturing sector.

Employment levels in the service sector increased during October, albeit only marginally. Meanwhile, there was further job shedding in the manufacturing sector. Overall, total employment fell in October after remaining unchanged in September.

Input prices in both sectors rose during October. Moreover, the rates of inflation in both manufacturing and services were broadly in line with each other. The rate of input price inflation for service providers was slower than in September, but remained solid overall.

Average tariffs charged by service sector firms decreased during October. The modest reduction in selling prices followed a marginal increase in September. Manufacturing average output charges meanwhile increased for the first time in 12 months. Overall, this left composite output charges broadly unchanged from September.

Chinese service sector firms were optimistic regarding the one-year business outlook in October. A number of firms attributed their optimistic outlook to expansionary policies. Overall, the level of positive sentiment towards future business activity growth was strong but was one of the weakest recorded in the seven-year series history.

Comment

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

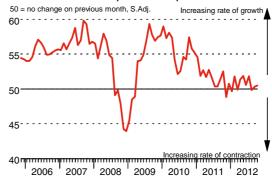
"Despite the moderation of services activity growth, the Chinese economy is gradually bottoming out as the filtering-through of earlier easing policy is boosting domestic demand. We expect the continuation of policy easing to sustain the recovery in manufacturing sector in the coming months, which should lend additional support to growth of services sectors and consumer spending."

Key points

- Output expands at composite level for second month in a row
- Composite new orders increase at the quickest pace in a year
- Input costs rise in both sectors

Historical Overview

HSBC China Composite Output PMI



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 22nd November 2012. For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates





For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Group Communications, China Telephone +86 21 3888 1251 Email dianayqmao@hsbc.com.cn

Markit

Annabel Fiddes, Economist
Telephone +44-1491-461-010
Email annabel.fiddes@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-781-581-2162
Email caroline.lumley@markit.com

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' IndexTM (PMITM) 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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