HSBC China Services PMITM (with Composite PMI data)

Weakest pace of services activity growth since August 2011

Summary

The HSBC China Composite PMI data (which covers both manufacturing and services) signalled a modest expansion of business activity during December. Output has now risen for four consecutive months. Moreover, the rate of growth quickened slightly from November to the fastest in the current sequence. The HSBC China Composite Output Index posted 51.8 in December, up from 51.6 in November.

Output increased across both the manufacturing and service sectors during December. The rates of expansion were broadly similar, with both sectors signalling modest growth. However, the rate of expansion in services slowed further, with the HSBC China Services Business Activity Index recording 51.7 in December, down from 52.1.

New orders also rose in both the manufacturing and service sectors during December. Growth of new business in the service sector was slightly faster in December than in November, but remained modest overall. Total new orders in the manufacturing sector also grew at a stronger pace in December, and largely drove the increase in composite new orders, which rose at the quickest rate since October 2011.

Outstanding business fell once more across both sectors in December. The rate of backlog depletion was more pronounced in the services sector, but remained modest overall. Work-in-hand meanwhile fell only fractionally at manufacturing companies.

Employment levels rose sharply in the service sector during December and at the quickest pace in more than two years. Meanwhile, staff numbers were broadly unchanged in the manufacturing sector.

Input prices increased across both the manufacturing and service sectors in December. The rates of inflation were broadly similar in both sectors, but slightly more marked in the service sector. At the composite level, input costs continued to rise at a moderate pace.

Average tariffs rose across both sectors during December, following slight reductions in November. Output charges rose modestly in the manufacturing sector, but only marginally in the service sector. Nonetheless, this was the first increase of composite output charges for nine months.

Chinese service providers remained optimistic in December regarding future business activity at their firms. Optimism was generally attributed to improving market conditions, which were also expected to boost the growth of new business 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:

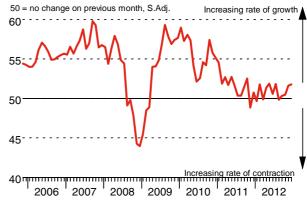
"Despite the moderation of December's headline services PMI, the underlying strength of services sectors improved in terms of stronger new business flows and employment growth. This, plus the further pick-up of manufacturing growth, suggests that China is on track for achieving around 8% y-o-y GDP growth recovery in 4Q."

Key points

- Output expands at composite level for fourth successive month
- Composite new orders increase at the quickest pace in over a year
- Sharp rise in services employment, while staffing levels broadly unchanged in manufacturing

Historical Overview

HSBC China Composite Output PMI



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 24th January 2013. For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page.mvc/Diar yofReleaseDates





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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' 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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