HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 09:45 (Beijing), 5 February 2013

compiled by markit

HSBC China Services PMI™ (with Composite PMI data)

Output across manufacturing and services increases at fastest rate in two years

Summary

The HSBC China Composite PMI data (which covers both manufacturing and services) signalled a further expansion of business activity during January. Output at the composite level has now increased for five successive months, with January posting a solid rate of expansion, the fastest in two years. The HSBC China Composite Output Index posted 53.5 in January, up from 51.8 in December.

Output across both the manufacturing and service sectors increased simultaneously for the third month in a row in January. Manufacturers signalled a marked rate of expansion in the context of historical data, while growth in the service sector was solid, as signalled by the HSBC China Services Business Activity Index recording 54.0 in January, up from 51.7.

New business also rose across both the manufacturing and service sectors in January. The growth rates of new orders were quicker than in December and solid across both sectors. Overall, this led to the strongest growth of composite new orders in two years.

Backlogs of work continued to fall in the service sector in January. That said, the rate of depletion eased from December and was only slight. Meanwhile, outstanding business increased in the manufacturing sector at a modest pace. Concurrently, work-in-hand increased at the composite level (slightly) for the first time in six months.

Staff numbers increased at a marked pace in the service sector during January, despite the rate of job creation having slowed from the previous month. Employment levels in the manufacturing sector also rose, albeit slightly. At the composite level, staffing levels increased modestly and at the fastest rate since May 2011.

Average input prices increased across both the manufacturing and service sectors in January. The rate of inflation accelerated in the manufacturing sector to a 16-month high. Meanwhile, inflation eased slightly in the service sector, but remained strong overall. Inflation at the composite level increased at a solid rate, with the rate of increase the quickest since October 2011.

Average tariffs rose in the manufacturing sector for the second successive month in January, and at a similarly modest pace as in December. Service providers, however, signalled a slight reduction in output charges following a marginal increase in one month previously. Overall, composite output charges rose for the second month in a row, albeit marginally.

Comment

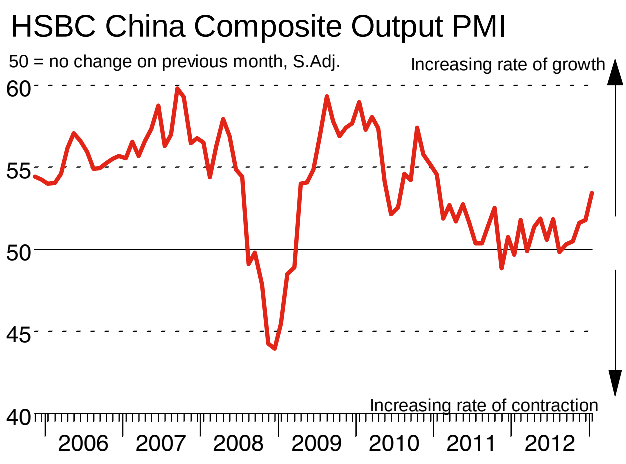
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Services activities resumed faster expansion on rising new business flows, along with the recovery of manufacturing growth. Still solid job gains plus higher business expectations bode well for further improvement of services sectors' growth. Following the growth bottoming out in 4Q 2012, China's growth recovery is now on a firmer footing."

Key points

- Both composite output and new orders expand at the quickest rates in two years
- Backlogs of work at the composite level increase slightly, following a five-month period of reduction
- Total employment increases at fastest rate in 20 months, largely driven by the service sector

Historical Overview



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 25th February 2013. For all forthcoming PMI release dates please see http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates

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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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