

HSBC China Services PMI™ (with Composite PMI data)

Business activity growth remains subdued across both the manufacturing and service sectors

Summary

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled only a slight expansion of output during May. The HSBC China Composite Output Index posted 50.9, and down from 51.1 in April, indicated the weakest expansion in business activity since last October.

Output continued to expand across both the manufacturing and service sectors for the seventh consecutive month in May. However, production at manufacturing plants rose at the weakest pace since October 2012 and business activity at service providers increased at a modest pace. The latter was signalled by the HSBC China Services Business Activity Index, which posted 51.2 in May. This was broadly unchanged from April's 51.1 and was one of the lowest readings in the series history.

Total new orders were relatively unchanged in May at the composite level, with sector data indicating differing trends. New work intake at manufacturing plants fell modestly over the month and for the first time since last September, while new business increased at service providers. However, the rate of growth was modest and remained historically weak in the service sector.

The volume of outstanding business at service providers was unchanged during May, following on from a 15-month sequence of depletion. In contrast, backlogs of work fell slightly at manufacturing plants. At the composite level, backlogs of work declined for the fourth month in a row, albeit marginally.

Staffing levels increased at service providers in May, albeit slightly, while manufacturers cut payroll numbers for the second successive month. Furthermore, the rate of job shedding at manufacturing plants was the quickest since last October. Concurrently, employment at the composite level declined marginally for the second month in a row.

Input prices continued to rise in the service sector, but the latest increase was the weakest in the current 43-month sequence of inflation. Meanwhile, average input costs at manufacturers declined sharply and for the third consecutive month. At the composite level, input costs fell for the second successive month and at the fastest rate since last August.

Output charges, however, declined across both monitored sectors in May. Though only slight, it was the first time service providers had cut their average tariffs since January. Meanwhile, manufacturers reduced their output prices sharply, and for the third month in a row. Consequently, average tariffs fell at the strongest rate in nine months at the composite level.

Service providers continued to signal a subdued level of confidence regarding the 12-month business outlook in

May, with the Business Expectations Index posting one of the weakest readings in the series history.

Comment

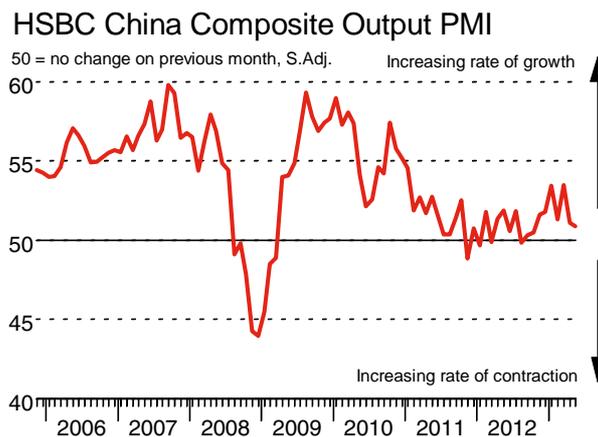
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Service sector activities stabilized in May at a relatively low level of growth. A soft patch in manufacturing growth continues to weigh on this industry and adds more downside risks to China's growth rate in 2Q. That said, the improving property market and Beijing's renewed effort on expanding VAT tax reform nationwide could lend some support for the service sector's future development."

Key points

- Marginal growth of output across both the manufacturing and service sectors
- New business falls at manufacturers, but rises at service providers, albeit modestly
- Both input prices and output charges fall further at the composite level

Historical Overview



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 20th June 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 820 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.

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