HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC China Services PMI™ (with Composite PMI data)

Service providers signal a modest increase in business activity, while output falls at manufacturing plants

Summary

HSBC China Composite *PMI*™ data (which covers both manufacturing and services) signalled the first contraction of output in ten months in June. That said, the rate of reduction was only fractional, as signalled by the HSBC Composite Output Index posting slightly below the 50.0 no-change mark at 49.8 (down from 50.9 in May).

Sector data indicated divergent trends in June, with manufacturers recording the first reduction in output since last October, while service providers saw a modest increase in business activity. The latter was signalled by the HSBC China Services Business Activity Index, which posted at 51.3 in June. That said, it was relatively unchanged from May's reading of 51.2, and one of the weakest in the series.

Total new orders declined at the composite level in June, following on from a relatively unchanged level of new business in May. As was the case with output, the reduction was largely driven by manufacturers which recorded a modest decline in new orders. Meanwhile, service providers saw an increase in new work, but the rate of expansion was the weakest in 55 months.

Backlogs of work fell across both monitored sectors in June, with goods producers and service providers signalling the same marginal rate of depletion. Consequently, the level of work-in-hand at the composite level declined slightly for the fifth month in a row.

Staffing levels fell fractionally at the composite level in June. Job shedding was largely centred on the manufacturing sector, which reported a modest reduction in employment levels. In contrast, service providers recorded a net increase in staff numbers, with the rate of job creation accelerating to a five-month high.

Average input costs decreased for the third consecutive month at the composite level in June. Operating costs at manufacturing plants fell solidly over the month, but increased modestly at service providers. That said, the rate of inflation in the service sector was substantially below the historical average.

Manufacturers cut their output charges for the fourth month in a row in June. Service providers also lowered their tariffs, albeit marginally, for the second successive month. Concurrently, output charges at the composite level fell further and at a solid pace. Anecdotal evidence suggested that charges were reduced in an attempt to boost sales.

Chinese service providers were cautiously optimistic towards activity in 12 months' time during June. The respective index posted its lowest level in the survey history, as firms continued to express concerns over relatively weak client demand.

Comment

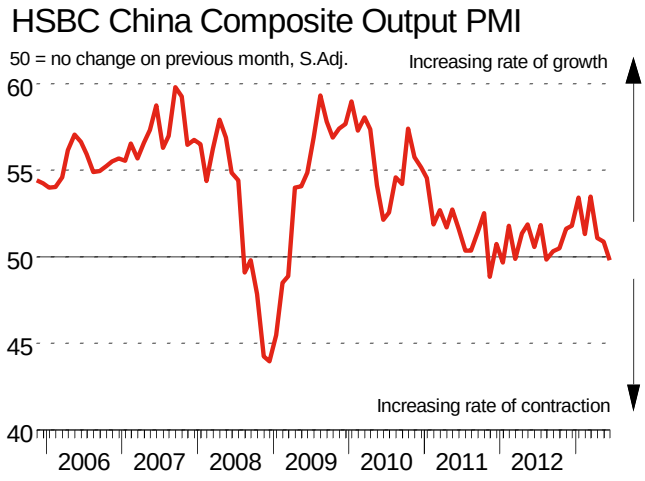
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The underlying growth momentum is likely to be softening for services sectors, along with the slowdown of manufacturing growth. With sluggish growth of new orders, employment growth is under pressure. As Beijing's VAT reforms are likely to take time to filter through, we expect slower growth in service sectors in the coming months."

Key points

- New business increases at slower rate at service providers, but falls at manufacturers
- Job shedding intensifies in the manufacturing sector, while services employment increases modestly
- Both input costs and output charges fall at the composite level

Historical Overview



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 24th July 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.

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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Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics