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HSBC China Services PMITM (with Composite PMI data)

Output growth eases across both the manufacturing and service sectors

Summary

HSBC China Composite *PMI*[™] data (which covers both manufacturing and services) signalled a further expansion of output in September. Output growth has now been recorded for two successive months. The rate of expansion remained modest, despite having eased since August, with the HSBC China Composite Output Index posting at 51.2 in September, down from 51.8 in August.

Output levels increased across both the manufacturing and service sectors during September. That said, the rate of expansion eased to only a fractional pace at manufacturers, and growth also slowed at service providers. Furthermore, growth in services activity remained substantially belowtrend. Overall, the HSBC China Services Business Activity Index signalled a moderate rate of increase, posting at 52.4 in September, down from 52.8 in August.

Manufacturers reported a further increase in order book volumes in September. However, the rate of increase was unchanged from August's marginal pace. Meanwhile, at service providers, new order growth slowed from August, but was nonetheless marked. At the composite level, new work rose modestly and for the second successive month.

Employment levels at Chinese manufacturers declined for the sixth month in a row in September. The rate of job shedding was moderate and broadly unchanged from August. In contrast, staffing levels increased at service providers, following a reduction one month previously. That said, the rate of job creation was only slight. At the composite level, workforce numbers declined for the sixth consecutive month, albeit marginally.

Volumes of outstanding business at goods producers rose for the second month running in September. The rate of accumulation was similar to that recorded in August. Meanwhile, backlogs of work declined at service providers in September. However, the rate of reduction was only marginal. Overall, the level of work-in-hand rose for the second successive month, though only slightly.

In September, input costs faced by manufacturers increased at the fastest rate since February. Service providers also reported higher input costs, though the rate of inflation was modest and below-trend. At the composite level, input price inflation was moderate and relatively unchanged from August.

Both manufacturers and service providers passed on higher input costs to clients by raising their output prices in September. The rates of increase were modest across both sectors. Consequently, output charges rose at the composite level and for the second month in a row.

Service sector firms operating in China expected activity levels to be higher in one year's time. However, the degree

of positive sentiment was the second-weakest in the series history. Although some firms linked optimism to improving market conditions, others believed that relatively weak client demand would dampen future growth prospects.

Comment

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

"China's services activity growth appears to be stabilising at a faster pace than in 2Q. This led to a renewed expansion of employment from the contraction in August. Combined with the gradual improvement of the manufacturing PMI, the Chinese economy is still on the way to a modest recovery. But a more consolidated and sustainable recovery requires structural reforms."

Key points

- Total output and new orders increase further, but at weaker rates.
- Staffing levels continue to decline at the composite level
- Both manufacturers and service providers raise their output charges for the second month in a row

Historical Overview

HSBC China Composite Output PMI



Sources: Markit, HSBC.

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