HSBC Purchasing Managers' Index[™] Press Release

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HSBC China Services PMITM (with Composite PMI data)

Output growth strengthens across both the manufacturing and service sectors

Summary

HSBC China Composite *PMI™* data (which covers both manufacturing and services) signalled an expansion of output for the third consecutive month in October. Moreover, the HSBC Composite Output Index posted 51.8, up from 51.2 in September, and signalled the joint-strongest rate of growth in seven months, on par with August.

Output increased for the third month running at manufacturers in October, with the rate of growth the strongest since April. Meanwhile, business activity continued to rise at service providers, and at a slightly faster pace than in September. Though modest, the rate of services activity growth was one of the fastest in 2013 so far, as signalled by the HSBC China Services Business Activity Index posting at 52.6, up from 52.4 in September.

New business rose at both manufacturers and service providers during October. Goods producers recorded a moderate expansion, while service providers saw a solid increase in new work that was the fastest in seven months. Consequently, new business increased for the third successive month at the composite level, and at the quickest pace since March.

Manufacturers signalled a renewed expansion of workforce numbers in October, while employment increased for the second successive month at service providers. However, the rates of expansion were only slight in both cases. As a result, payroll numbers at the composite level increased marginally, ending a six-month sequence of job losses.

In October, outstanding business at manufacturers rose at the fastest pace since March 2011, amid reports of improved demand. Meanwhile, service providers signalled a lower amount of backlogged work for the fifth successive month. That said, the rate of depletion was in line with the average for the current sequence and only marginal. At the composite level, work-in-hand increased for the third month in a row and at a moderate pace.

Input costs faced by manufacturers rose for the third consecutive month in October, while service providers also signalled increased cost burdens. Furthermore, the rates of input price inflation were similar across both monitored sectors, giving a solid rate of inflation at the composite level.

Average output prices increased across both the manufacturing and service sectors for the third month running in October. However, the rate of increase was marginal at goods producers and modest at service providers. Consequently, tariffs rose marginally at the composite level.

Firms operating in China's service sector were optimistic regarding the 12-month business outlook, generally expecting activity levels to be higher in one year's time. However, the degree of positive sentiment remained weak

in the context of historical data. Nonetheless, new product launches and improving economic conditions are expected to boost activity over the next 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:

"Service sectors saw modest but broad-based improvement into 4Q, as greater volumes of new business translated into the second consecutive expansion of employment. Service sectors are likely to find support from the ongoing recovery of manufacturing growth and signs of improving labour market conditions. This should help cement China's growth momentum in the coming months."

Key points

- New order growth accelerates to seven-month high across both the manufacturing and service sectors
- Employment rises for the first time since March at the composite level
- Input prices increase solidly at both manufacturers and service providers

Historical Overview

HSBC China Composite Output PMI



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 21st November 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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