

HSBC China Services PMI™ (with Composite PMI data)

Overall activity growth at joint-fastest pace in nine months

Summary

July's survey findings showed business activity (covering manufacturing and services) in China rising at the joint-fastest rate in nine months. This was signalled by the HSBC Composite Output Index posting 51.9, up from 50.6 in June. Overall growth reflected an increase in manufacturing production – the first in five months – and a stronger expansion of service sector output. The latter was highlighted by a rise in the HSBC Business Activity Index from 52.3 to 53.1.

Behind the latest rise in service sector activity was a sustained increase in new order volumes. However, the rate of new business growth remained below-trend. This, coupled with a slower rate of decline in new orders placed at goods producers, meant that overall new business rose marginally in July.

Sub-par new order growth meant that capacity was little tested in China's service sector, with backlogs of work falling for a sixth month in a row. A marginal rise in work-in-hand (but not yet completed) at goods producers was recorded by July's manufacturing survey.

Jobs growth in China's service sector also remained below trend in July, despite picking up from the month before. In contrast, the index measuring trends in manufacturing employment fell to a 40-month low, signalling a moderate rate of job shedding.

The rate of input price inflation in the service sector quickened slightly since the month before, but nevertheless remained lacklustre. Conversely, manufacturers recorded a sharp decline in purchasing costs. As a result, input prices fell for a second successive month.

Service providers reduced their average tariffs further in July, albeit at only a marginal rate. Respondents attributed reduced output charges to client requests for lower tariffs and competitive pressures. With goods producers reducing factory gate charges at a steep rate, total selling prices decreased markedly over the month.

Chinese service providers remained confident regarding the one-year outlook for activity in July. New product developments and buoyant economic prospects were cited by panellists as having supported positive sentiment in the latest survey period. Around 30% of companies expected business activity to be higher in 12 months' time, versus only 4% that anticipate a fall. That said, the degree of optimism was weak in the context of historical data, with the relevant index almost ten points lower than the long-run series average.

Comment

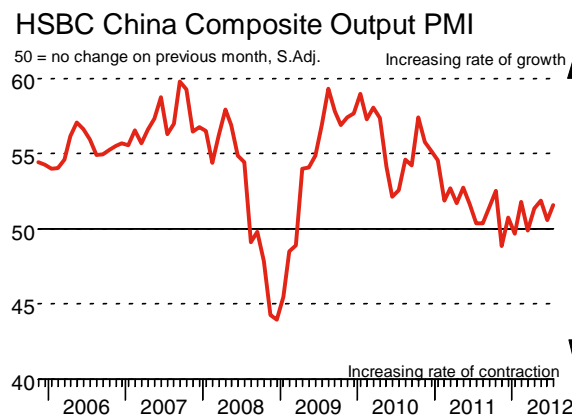
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The modest gain in July's HSBC services and manufacturing PMIs implies that the slowdown of the Chinese economy is likely to have stabilized. That said, the pace of expansion suggested by the composite PMI remained only modest and is not sufficient to warrant a meaningful recovery. To secure growth and employment, Beijing still needs to step up policy easing and fast falling inflation allows them to do so."

Key points

- Overall activity rises at only modest rate
- Total employment down for fifth month running
- Service sector business confidence dips to lowest in seven months

Historical Overview



Sources: Markit, HSBC.

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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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