

HSBC China Services PMI™ (with Composite PMI data)

Composite output expands at fastest rate since March 2013

Summary

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled a second successive monthly increase of Chinese business activity in June. Moreover, the rate of expansion accelerated to the strongest in 15 months, as signalled by the HSBC Composite Output Index posting at 52.4 in June, up from 50.2 in May.

June data indicated that a solid rise in activity at service providers and renewed output growth at manufacturers supported the faster expansion of output at the composite level. Furthermore, manufacturing output increased at the strongest pace since last November, while services activity growth was the quickest since March 2013. The latter was signalled by the HSBC China Services Business Activity Index posting at 53.1 in June (up from 50.7 in May). Reports from panellists suggested that activity rose in line with stronger inflows of new business.

Total new work expanded at an accelerated and robust pace at service providers in June, while manufacturers saw the first increase in new business for five months. Furthermore, the expansion of new orders at service providers was the strongest since January 2013. As a result, new work rose solidly at the composite level.

Service sector firms increased their payroll numbers for the tenth successive month in June, and at the second-fastest rate in 2014 so far. Reports from panellists suggested that firms hired additional staff to help meet rising new workloads. Meanwhile, staff numbers fell again at manufacturing companies, albeit at the slowest rate in three months. Consequently, employment at the composite level was little-changed from the previous month in June.

Backlogs of work at Chinese service providers rose for the first time since January 2012 in June. Outstanding business also increased at manufacturers and for the first time since January. That said, the rates of accumulation were marginal in both cases. Anecdotal evidence mentioned that unfinished work rose due to increased volumes of new business.

Input costs increased for the first time in six months at manufacturers, but at a modest rate. Cost burdens faced by service providers also increased in June, and at a moderate pace that was the fastest in three months. However, the rates of input price inflation remained weaker than the historical averages for both sectors.

Following a slight increase in May, output charges set by manufacturers were broadly unchanged in June. Meanwhile, service providers cut their selling prices for the third month running, amid reports of competitive market pressures. That said, the rate of discounting was similar to that recorded in the previous two months and only marginal.

Service sector firms were generally optimistic towards the 12-month business outlook in June. That said, the degree of positive sentiment remained historically weak, despite improving upon May's 11-month low.

Comment

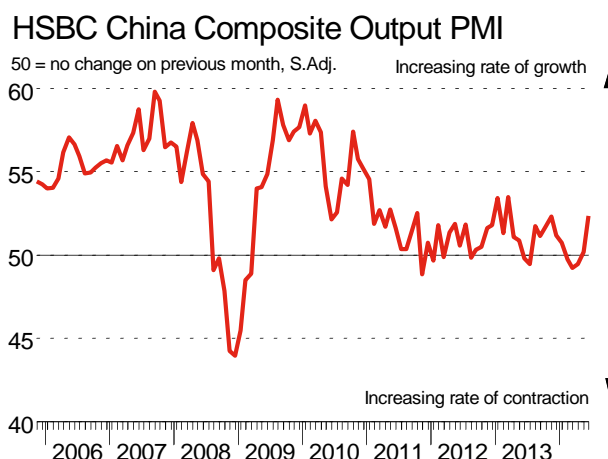
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The HSBC China Services PMI headline index rose to 53.1 in June, the highest reading since March 2013. Both new and existing business indices rebounded, suggesting stronger economic momentum. The employment index also improved over the month, as increased economic activity lifted labour demand. The expansion in the service sector reinforces the recovery seen in the manufacturing sector, and signalled a broad-based improvement over the month. We think the economy is slowly turning around, and expect the recovery to remain supported by accommodative policies on both the fiscal and monetary fronts over the coming months. The slowdown in the property market still poses downside risks, however, and may warrant further easing measures in 2H 2014."

Key points

- Stronger expansion of service sector business activity while manufacturing output returns to growth
- New order growth accelerates to 15-month high at the composite level
- Outstanding business rises across both the manufacturing and service sectors

Historical Overview



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 24th July 2014. 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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