HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC China Services PMI™ (with Composite PMI data)

Chinese total output increases for the first time since May

Summary

HSBC China Composite *PMI*™ data (which covers both manufacturing and services) signalled an expansion of output for the first time in three months during August. The HSBC Composite Output Index signalled a modest rate of growth, posting at 51.8 (up from 49.5 in July), that was the strongest since March.

Output increased simultaneously across both the manufacturing and service sectors in August. Notably, this was the first expansion of output at manufacturers in three months. However, the rate of growth was only slight. Meanwhile, growth in business activity at service providers accelerated to a five-month high. This was signalled by the HSBC China Services Business Activity Index rising to 52.8 from 51.3 in July, and followed a four-month period of relatively stagnant growth.

New work increased at manufacturers for the first time in four months in August. That said, the rate of new order growth was only slight. New business also increased at service sector firms and at a marked pace. Furthermore, it was the quickest expansion of new order books in five months. Consequently, new orders increased at the composite level for the first time since April, and at a modest rate.

Staffing levels continued to decline at manufacturing plants in August. Employment also fell at service providers, and for the first time in four months. Moreover, this was only the second time that payroll numbers had been cut in the service sector since January 2009. However, the rates of job shedding across both sectors were only slight.

Backlogs of work increased modestly at manufacturers in August, and for the first time in four months. In contrast, service sector firms saw a further marginal reduction of work-in-hand. At the composite level, volumes of outstanding business increased for the first time since January, though only marginally.

Average input costs faced by manufacturers in August increased for the first time since February. The rate of input price inflation was modest. Operating costs also increased at service providers, though at a slightly weaker rate than that recorded at goods producers. Overall, input costs rose for the first time in five months at the composite level, and at a moderate pace.

Manufacturers increased their factory gate prices for the first time in six months in August, albeit marginally. Service sector firms also raised their output charges for the first time in four months, and at a modest pace. At the composite level, charges increased for the first time since February.

Service providers anticipate an increase in business activity over the next year. Furthermore, the degree of positive sentiment improved for the second month in a row and was the strongest since March. A number of panellists linked optimism to expectations of improving market conditions and strengthening client demand.

Comment

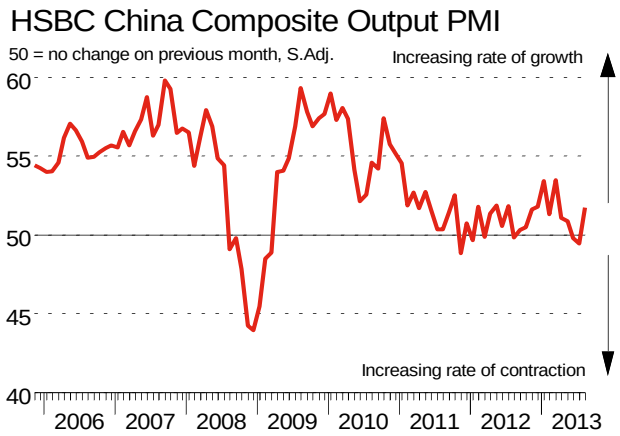
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The HSBC China Services PMI accelerated to a five-month high of 52.8 in August, thanks to growth of new business. Employment decreased as service providers saw their profit margins squeezed despite a moderate increase of output prices in August; the first rise in four months. A filter-through impact of VAT reform, combined with a rebound in manufacturing output, is expected to support service industry growth in the coming months."

Key points

- Output expands simultaneously across both monitored sectors for the first time since May
- Employment levels decline at both manufacturers and service providers
- Output charges rise at the composite level for the first time in six months

Historical Overview



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 23rd September 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

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