

HSBC China Services PMI™ (with Composite PMI data)

Composite output and new orders both fall for the first time in seven months

Summary

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled a contraction of private sector output in China, following a six-month sequence of growth. That said, the rate of reduction was fractional overall, as signalled by the HSBC Composite Output Index posting at 49.8 in February, down from 50.8 in January.

Latest data signalled divergent trends across China's manufacturing and service sectors. Output declined at goods producers for the first time since July 2013, while service providers saw a further increase of business activity. The rate of activity growth edged up slightly from January's 29-month low, but remained marginal overall. This was signalled by the HSBC China Services Business Activity Index posting at 51.0 in February, up from 50.7 in January.

As was the case with output, manufacturers saw a renewed reduction of new business during February, while service providers signalled a further expansion of new order books. That said, growth was moderate and remained weaker than the historical average. At the composite level, total new business decreased, albeit fractionally.

Staffing levels declined at manufacturing companies again in February and at the quickest rate in nearly five years. In contrast, service sector firms expanded their payroll numbers for the sixth month running. However, service sector firms were more cautious towards taking on more staff, as the rate of job creation eased to a five-month low. Consequently, employment levels fell modestly at the composite level.

Backlogs of work decreased across both the manufacturing and service sectors in February. Though only slight, it was the first reduction of work-in-hand at goods producers since July 2013. Meanwhile, outstanding business at service providers fell at a moderate pace that was the quickest in a year. As a result, unfinished business declined marginally at the composite level.

Average input costs in China's manufacturing sector fell for the second successive month in February, amid reports of weaker demand for inputs. In contrast, cost burdens continued to increase at service providers. That said, the rate of input price inflation was the weakest since June 2013. At the composite level, total input costs fell slightly over the month.

Manufacturers cut their output charges at a marked pace in February, as part of efforts to stimulate client demand. Meanwhile service providers raised their selling prices, albeit fractionally, following a reduction in January.

Although growth of output and new orders remained weaker than their historical averages, service sector firms were optimistic with regard to the 12-month business outlook in February. Confidence in the sector was linked to forecasts of improving market conditions and company expansion plans.

Comment

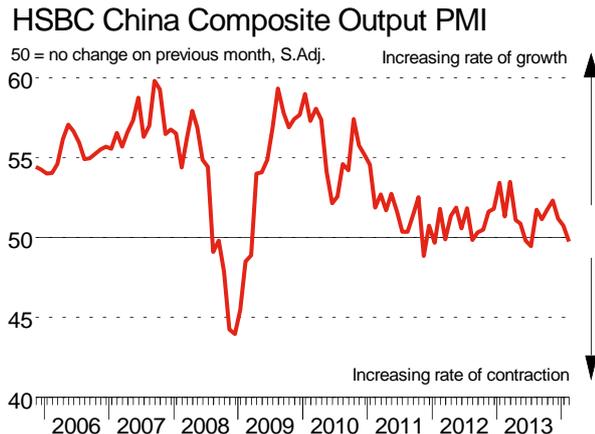
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The HSBC China Services PMI suggests that service sector growth seems to be stabilising at a relatively low level. However, combined with the weaker manufacturing PMI, the overall strength of economic growth is moderating and this is starting to weigh on employment growth. Beijing policy makers can and should fine-tune policy to avoid growth deceleration in the first half of the year."

Key points

- Business activity and new orders both increase at service providers, but decline at manufacturers
- Employment levels cut at manufacturing firms, while payroll growth eases at service providers
- Outstanding business falls across both the manufacturing and service sectors

Historical Overview



Sources: Markit, HSBC.

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