

HSBC China Services PMI™ (with Composite PMI data)

Services activity growth hits four-month high, but output falls at manufacturers

Summary

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled that business activity in China fell for the second month running in March. Though slight, the rate of contraction was still the sharpest since November 2011, with the HSBC Composite Output Index posting at 49.3 in March, down from 49.8 in February.

Data for March signalled that the reduction in overall business activity was driven by the manufacturing sector, which posted its sharpest contraction of output since November 2011. Meanwhile, services activity growth strengthened to a four-month high, as signalled by the HSBC China Services Business Activity Index posting at 51.9 in March, up from 51.0 in February. However, growth remained subdued in the context of historical data.

New business followed a similar trend to output, with new work falling for the second successive month at manufacturers, but rising at service sector firms. The rate of new order growth in the service sector was little-changed from February and moderate, amid reports of new client wins. However, manufacturers' new orders fell at the strongest rate in 28 months.

Chinese manufacturers cut their staffing levels again in March, albeit marginally. In contrast, higher volumes of new work led service providers to expand their payroll numbers at the fastest rate since June 2013. Notably, job creation at service providers offset job shedding at manufacturers, and led to the first increase of employment at the composite level for five months.

March data signalled that outstanding business fell for the second month in a row at manufacturers, albeit marginally. Backlogs of work also decreased slightly at service sector firms. While manufacturers reported that fewer new orders enabled them to lower the level of work-in-hand, service providers linked the reduction to higher staffing levels.

Input costs faced by Chinese manufacturers fell at the sharpest rate since August 2012 in March. According to panellists, suppliers cut their charges in response to weaker demand for inputs. Meanwhile, cost burdens faced by service sector firms rose at the quickest pace in four months, amid reports of increased staffing costs. At the composite level, total input costs fell markedly over the month.

Output charges fell sharply in China's manufacturing sector, with a number of panellists citing lower input costs and competitive market pressures. In contrast, service providers increased their selling prices for the second month in a row, albeit marginally.

Although growth of output and new orders remained weaker than their respective series averages, service providers were confident that activity levels would increase in one year's time in March. Furthermore, the degree of positive sentiment reached a 12-month high, and was largely linked to the planned development of new projects.

Comment

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

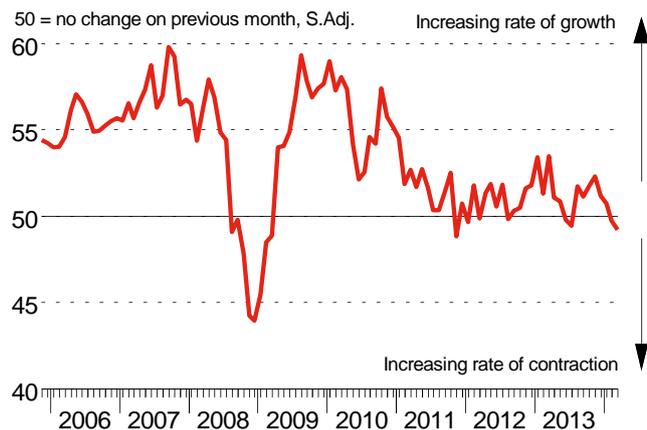
"The HSBC China Services PMI suggests a modest improvement of business activities in March, with employment expanding at a faster pace. However, combined with the weaker manufacturing PMI reading, the underlying strength of the economy is softening, which should ultimately weigh on the labour market. Beijing should focus on leading indicators to launch fine-tuning measures that support growth."

Key points

- Business activity and new work both rise at service providers, but fall at manufacturers
- Employment rises for the first time in five months at the composite level
- Input costs fall sharply at manufacturers, but rise at service providers

Historical Overview

HSBC China Composite Output PMI



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 23rd April 2014. For all forthcoming PMI release dates please see:

<http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates>

For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China & Co-Head
of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Communications, (China)
Telephone +86-21-3888-1251
Email dianayqmao@hsbc.com.cn

Markit

Annabel Fiddes, Economist
Telephone +44-1491-461-010
Email annabel.fiddes@markit.com

Alex Brog, Corporate Communications
Telephone +44-207-264-7602
Email alex.brog@markit.com

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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