

HSBC China Services PMI™ (with Composite PMI data)

Services activity continues to expand modestly in July, while manufacturing output contracts at faster rate

Summary

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled a contraction of output for the second successive month in July. Although the HSBC Composite Output Index signalled only a marginal rate of reduction, posting at 49.5 in July, down from 49.8 in June, it was the fastest recorded since November 2011.

Production levels fell at manufacturers for the second consecutive month in July. Furthermore, the rate of contraction accelerated from the previous month, but remained modest. Meanwhile, service providers signalled a modest expansion of business activity, as signalled by the HSBC China Services Business Activity Index, posting 51.3 in July, unchanged from the previous month. However, growth in the service sector remains historically weak.

New business fell at the composite level for the third month in a row during July. Sector data signalled similarly divergent trends to output, with manufacturers noting a further reduction in total new orders, while service providers noted a modest expansion in order book volumes. Furthermore, the rate of new order growth in the service sector was the fastest since March.

At the composite level, staffing levels declined for the fourth month in a row in July. Although the rate of job shedding was only slight, it was the strongest reduction since February 2009. The overall decline was driven by manufacturers, which signalled a marked rate of job cuts, while employment in the service sector increased slightly.

Volumes of outstanding business decreased across both the manufacturing and service sectors during July. Manufacturers indicated a modest rate of depletion, while service providers recorded only a marginal reduction. Consequently, the level of work-in-hand at the composite level fell slightly for the sixth successive month.

Input costs fell for the fourth month in a row at the composite level during July. That said, the rate of decrease was only marginal and the weakest in the current sequence. Divergent trends were signalled by sector data, however, as manufacturers noted a marked fall in operating costs, while service providers reported a modest increase.

Output charges were cut in both the manufacturing and service sectors in July. Manufacturers signalled a marked rate of discounting, despite easing to a four-month low, while service providers reduced their tariffs marginally. At the composite level, output charges fell modestly and for the fifth month in a row.

Optimism regarding future output growth remained relatively subdued in China's service sector in July. Although the degree of optimism was higher than the

survey-low in June, a number of firms were concerned that fragile economic conditions may dampen or reduce future activity.

Comment

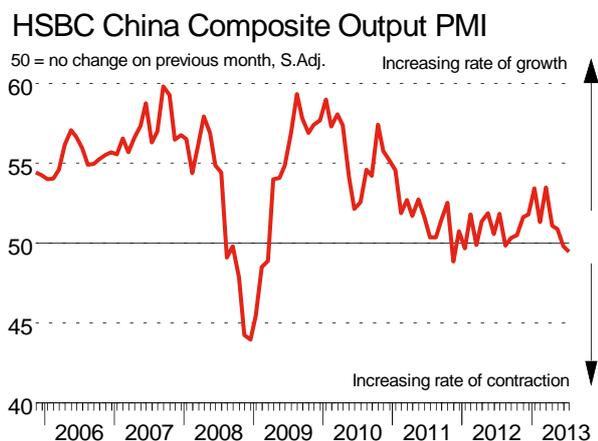
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"China's service sector has stabilised at a relatively low level of growth. But the profit margin continued to be squeezed given the divergence between input prices and prices charged indices. Without a sustained improvement of demand, services growth is likely to remain lackluster, putting downside pressures to employment growth."

Key points

- Marked reduction of manufacturing new orders offsets modest increase in services new business
- Strongest rate of job shedding since February 2009, reflecting sharp drop in manufacturing employment
- Output charges cut again across both manufacturing and service sectors in a bid to boost new orders

Historical Overview



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 22nd August 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.

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