

HSBC China Services PMI™ (with Composite PMI data)

Composite data signals weaker rates of output and new order growth

Summary

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled an increased amount of output for the fifth successive month in December. The rate of expansion eased from November's eight-month high, though remained modest. This was signalled by the HSBC Composite Output Index posting at 51.2 in December, down from 52.3 in November.

Chinese manufacturers reported a further expansion of output in December. Despite having eased over the month, the rate of growth remained moderate overall. Service providers also reported increased business activity in December. That said, the rate of growth eased to a marginal pace that was the weakest since August 2011. The latter was signalled by the HSBC China Services Business Activity Index posting at 50.9 in December, down from 52.5 in November.

New business rose across both the manufacturing and service sectors in December. Goods producers reported a modest expansion that was similar to the previous month. Service providers also signalled a modest rate of new order growth in December, though it was the weakest in six months. Consequently, total new work increased at a moderate pace at the composite level.

December data signalled divergent trends by sector for employment. Chinese manufacturers reported net job shedding for the second successive month, while service providers saw payroll numbers increase for the fourth month in a row. Moreover, it was the strongest expansion of workforce numbers in the service sector since June. At the composite level, staffing levels were broadly unchanged for the second month running.

The level of work-in-hand at manufacturers increased for the fifth consecutive month in December. The rate of accumulation was moderate, despite having eased slightly from November. Meanwhile, service providers signalled a reduced amount of outstanding business, following no change one month previous. That said, the rate of depletion was only slight. At the composite level, backlogs of work increased for the fifth month in a row, albeit marginally.

Average input costs increased across both the manufacturing and service sectors in December. That said, the overall rate of inflation was modest and the weakest in five months.

In December manufacturers cut their factory gate prices for the first time since July, albeit fractionally. In contrast, service providers raised their selling prices for the fifth successive month. As a result, average tariffs increased slightly at the composite level.

Latest data signalled that Chinese service providers were optimistic towards the 12-month business outlook in

December, with 26% of panellists expecting output to increase. However, the degree of positive sentiment remained historically weak, despite improving from the previous month.

Comment

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

"Despite the moderation of the headline China Services PMI index, which reflected slower new business growth, labour market conditions improved for the fourth month in a row. We expect the steady expansion of manufacturing sectors to lend support to service sector growth. Moreover, the implementation of reforms such as lowering the entry barriers for private business in service sectors and the expanded VAT reforms should help to revitalise service sectors in the year ahead."

Key points

- Output and new orders increase at weaker rates at both manufacturers and service providers
- Manufacturers reduce their payroll numbers, while service providers hire additional staff
- Inflationary pressures ease to five-month low at the composite level

Historical Overview



Sources: Markit, HSBC.

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

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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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