

# HSBC China Services PMI™ (with Composite PMI data)

## Manufacturing output expands solidly, while service sector activity stagnates

### Summary

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled a third consecutive monthly expansion of Chinese business activity in July. That said, the rate of increase eased from June's 15-month high and was moderate overall. This was signalled by the HSBC Composite Output Index posting at 51.6 in July, down from 52.4 in the previous month.

The latest expansion of composite output was led by manufacturers, as business activity at service providers was unchanged from the previous month. Furthermore, it was the strongest expansion of manufacturing output in 16 months. This contrasted with a stagnation of services activity, which was signalled by the HSBC China Services Business Activity Index posting at the no-change mark of 50.0 in July. This was down from 53.1 in June and the lowest index reading in the near nine-year series history.

Total new business placed at manufacturers rose solidly in July, while new order growth at service providers was the weakest in over five-and-a-half years and fractional overall. Anecdotal evidence suggested that subdued market conditions reduced clients' willingness to spend. Consequently, new business growth slowed at the composite level and was moderate overall.

Employment trends continued to diverge across both the manufacturing and service sectors during July. Staff numbers were cut at a slower pace at goods producers, while workforce numbers continued to increase at service providers. As a result, composite employment rose for the first time since March, though only slightly.

Outstanding business rose marginally for the second successive month at manufacturers. Meanwhile, backlogs of work at service providers fell at the fastest rate in 20 months. Reports from panellists suggested that unfinished work at service providers declined due to spare capacity that stemmed from relatively weak new order growth.

Input price inflation quickened across both the manufacturing and service sectors in July. The pace of increase was moderate at goods producers, while service providers saw a solid rise in cost burdens that was the strongest since last November. Nonetheless, the rates of inflation remained weaker than their respective averages.

Following broad stagnation in June, output charges increased slightly at manufacturing firms in July. In contrast, service providers cut their selling prices for the fourth successive month (albeit marginally). Consequently, output prices were little-changed from the previous month at the composite level.

Chinese service providers were optimistic with regard to the 12-month business outlook. That said, the degree of positive sentiment remained historically weak, amid reports that an uncertain economic outlook weighed on overall confidence.

### Comment

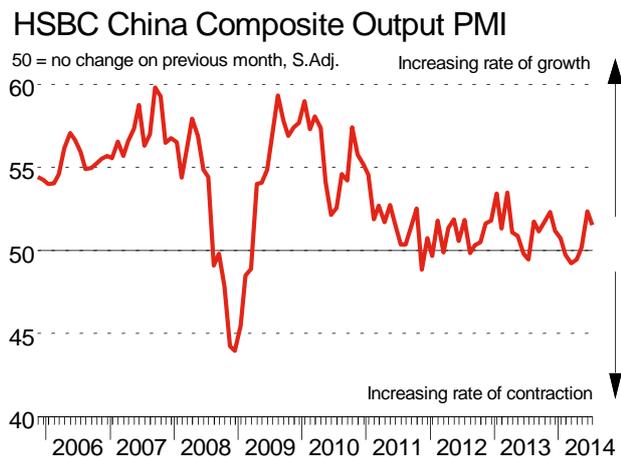
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The headline HSBC China Services PMI came in at 50.0 in July, the lowest reading since the series began in November 2005. Both the new business and outstanding business indices declined from their levels in June. The weakness in the headline number likely reflects the impact of the ongoing property slowdown in many cities as property related activity, such as agencies and residential services, see less business. Meanwhile, the employment and business sentiment indices remain stable. In the coming months, we think the service sector may get some support from the recovery in investment. But today's data points to the need of continued policy support to offset the drag from the property correction and consolidate the economic recovery."*

### Key points

- New order growth accelerates at manufacturers, while new work rises fractionally at service providers
- Input price inflation quickens to eight-month high at the composite level
- First expansion of composite employment since March

### Historical Overview



Sources: Markit, HSBC.

The HSBC Flash China Manufacturing PMI is due for release 21<sup>st</sup> August 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*<sup>™</sup> 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*<sup>™</sup> 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*<sup>™</sup> (*PMI*<sup>™</sup>) 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](mailto:economics@markit.com).

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