

HSBC China Services PMI™ (with Composite PMI data)

Composite data signals first expansion of output in four months

Summary

HSBC China Composite PMI™ data (which covers both manufacturing and services) signalled an expansion of Chinese business activity in May, following a three-month sequence of contraction. That said, the rate of growth was only fractional, as signalled by the HSBC Composite Output Index posting at 50.2 in May, up from 49.5 in April.

According to latest data, a slower decline in manufacturing output and a further rise in services activity supported the first expansion of combined output since January. That said, the rate of services activity growth was the weakest in four months and one of the slowest in the survey history. This was signalled by the HSBC China Services Business Activity Index posting at 50.7 in May, down from 51.4 in April. Anecdotal evidence suggested that tough market conditions weighed on services activity growth in the latest survey period.

New business stabilised at manufacturers in May, following a three-month sequence of reduction. Meanwhile, total new orders placed at service providers continued to increase in May. That said, the rate of expansion was moderate and the slowest in four months. Moreover, growth of new work in the service sector remained well below the historical series average. At the composite level, new business rose for the first time since January, albeit only slightly.

Latest data signalled a solid reduction of employment in China's manufacturing sector during May, while service providers raised their staff numbers for the ninth successive month. That said, the rate of job creation was unchanged from the previous month and only fractional. Reports from panellists suggested that muted client demand led firms to be more cautious towards hiring additional workers. As a result, employment at the composite level fell at the fastest rate since February 2009.

Outstanding business declined across both the manufacturing and service sectors during May. However, the rates of reduction were similar to that recorded in the previous month and only marginal.

Average input costs fell for the fifth month running at manufacturers, albeit at a modest pace that was the slowest in the current sequence. Meanwhile cost burdens at service providers rose modestly in May. That said, the rate of inflation remained weaker than the historical series average. At the composite level, average input costs were unchanged.

Chinese manufacturers raised their selling prices for the first time in six months in May, albeit marginally. Average output charges set by service sector firms, however, declined slightly for the second successive month, with a number of companies citing competitive market pressures.

Subdued client demand and an uncertain economic outlook weighed on service sector confidence towards the 12-month business outlook in May. The latest survey signalled the second-weakest degree of optimism since the series began in November 2005.

Comment

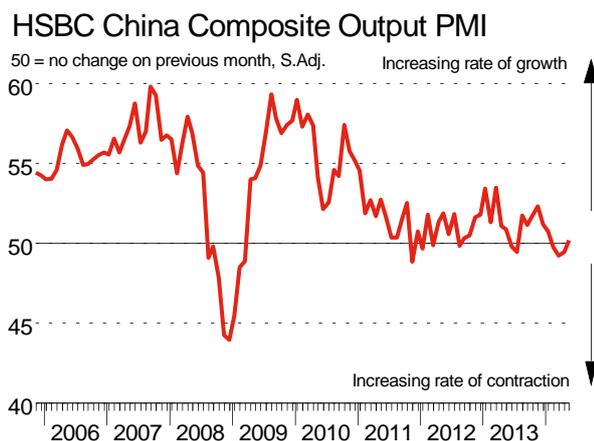
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The headline HSBC China Services PMI moderated to 50.7 in May, down from 51.4 in April. Latest data signalled a relatively big drop in the business expectations index, which fell to an 11-month low of 58.1, down from 60.7 in April. Both the new business and outstanding business indices were slightly weaker than April. The employment index, unchanged over the month, remained at a relatively low level. Coming after the stronger Manufacturing PMI reading for May, the slight disappointment in the headline Services PMI suggests that growth momentum remains slow and private sector sentiment is weak. We think policy makers should continue to ease monetary and fiscal policies in the coming months to help support growth."

Key points

- Services activity growth eases to marginal pace, while manufacturing output falls slightly
- New business increases modestly at service providers
- Composite employment declines at the fastest rate since February 2009

Historical Overview



Sources: Markit, HSBC.

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