HSBC *Purchasing Managers' Index*™ Press Release

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compiled by markit

HSBC China Services PMI™ (with Composite PMI data)

PMI data signal contraction of combined manufacturing and services output in November

Summary

Composite Chinese *PMI™* data showed output falling for the first time in 32 months during November, with the seasonally adjusted HSBC Composite Output Index (covering manufacturing and services) posting 48.9, from 52.6 in October. Manufacturers recorded a first monthly reduction in output since July, while service providers saw activity growth ease to a three-month low.

At 52.5 in November, down from 54.1 in October, the seasonally adjusted Business Activity Index signalled only a modest rise in Chinese service sector activity in the context of historic data. The latest index reading was the lowest in three months, and well below the long-run series average (56.9).

The moderation in service sector activity growth was underpinned by a slower increase in incoming new business, with the rate of expansion the weakest since August. Combined with a marked fall in new orders received by manufacturers, overall new business fell for the first time since March 2009.

Staffing levels in the Chinese service sector rose for a thirty-fourth successive month during November, with the rate of job creation the fastest since June. With a fractional rise in manufacturing employment recorded, the overall rate of employment growth was the sharpest in five months.

Chinese service providers recorded a rise in outstanding business during November, ending an 18-month period of backlog depletion. Survey respondents commented that capital and labour shortages had contributed to the overall rise in work-in-hand. Similarly, a marginal expansion of outstanding business was recorded in the manufacturing sector.

The rate of input cost inflation in the Chinese service sector eased to a 13-month low during November, and was slower than the long-run series average. Largely due to a sharp fall in average costs faced by manufacturers, input prices at the composite level fell at the fastest rate since April 2009.

Service providers raised their output charges in response to higher average cost burdens, although the pace of inflation was marginal. Similar to the trend seen for input prices, manufacturers recorded a marked reduction in charges at the factory gate during November. As a result, composite data signalled a monthly reduction in average tariffs for the first time since July 2010.

Chinese service providers expressed continued optimism in the business outlook in November, with positive sentiment linked by panellists to expectations of new business wins. However, the degree of optimism was the second-lowest in the series history. Companies cited policies aimed at cooling the property sector as having dampened business confidence.

Comment

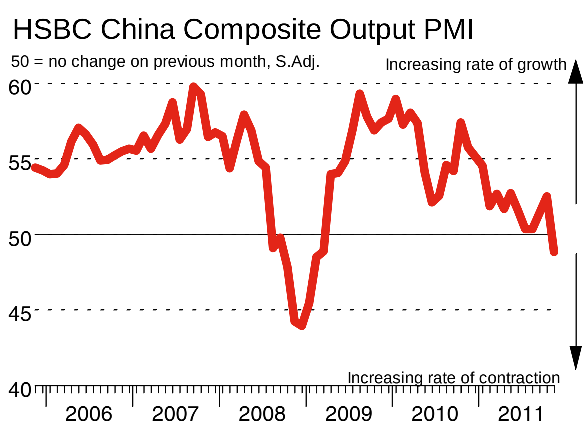
Commenting on the China Services and Composite *PMI™* data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"Despite slower growth of service sector activities in November, employment growth picked up to a five-month high, which should support resilient consumer spending growth in the coming months. With price pressures easing further, Beijing can and should use policies that are targeted on small businesses and service sectors to keep GDP growth at above 8% for the coming year."

Key points

- Manufacturing production falls at fastest rate in 32 months; lowest service sector growth since August
- Overall input costs fall for the first month since July 2010
- Service sector business optimism second-lowest in series history

Historical Overview



Sources: Markit, HSBC.

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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 800 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.

HSBC:

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Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markiteconomics.com