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

Activity growth in China's private sector quickens to sharpest in four months

### Summary

Growth of China's private sector economy accelerated to a four-month high in May. This was signalled by the seasonally adjusted HSBC Composite Output Index (covering manufacturing and services) posting 52.8, up from 51.7 in April. However, the index was noticeably lower than the long-run series average of 54.8.

The improvement in overall growth reflected a stronger rise in services output, with the seasonally adjusted Business Activity Index climbing to a seven-month peak of 54.3 in May. This represented the first month-on-month rise in the index since October 2010. In contrast, manufacturing output growth eased for the second successive month to only a marginal rate.

May data pointed to the sharpest rise in new business received by Chinese service providers since October last year. According to respondents, improved market demand had resulted in new contracts being secured from clients. In comparison, the rate of new order growth in the manufacturing sector held relatively steady at a moderate pace. Consequently, overall growth of new work strengthened to the strongest in four months.

Service providers recorded a slight fall in outstanding business during May. With a slower rate of backlog accumulation among manufacturers recorded, unfinished work rose only fractionally at the composite level.

Private sector employment rose further in May, and at the sharpest pace in 2011 so far. This reflected steeper rates of job creation across both manufacturing and service sectors, with firms in services taking on additional staff to the greatest extent in three months.

May data pointed to a marked gain in average costs faced by service providers, with the rate of increase quickening to a six-month high. However, cost inflation in the private sector eased to the slowest since August 2010, as manufacturers again reported a weaker rise in purchasing costs.

Rates of output price inflation moderated across both manufacturing and services during May, to nine- and eight-month lows respectively. As a result, composite output charge inflation eased for the third month running to a moderate rate.

Expectations for activity in the Chinese service sector remained positive in May. Confidence was linked to future new product developments, and hopes that the wider economy will continue to grow at a brisk pace. Although substantial, the degree of optimism decreased to the lowest since data were first compiled in November 2005. Firms operating in the Hotels & Restaurants sector reported that strong competitive pressures had tempered business optimism in the latest survey period.

### Comment

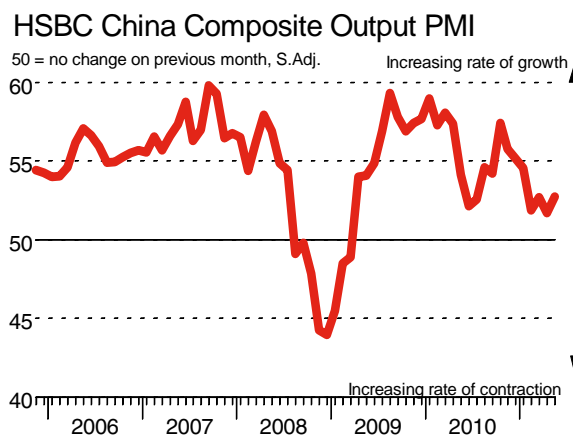
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The improvement in service sector growth, along with only a marginal slowdown in the manufacturing PMI, confirms our view that the economy is just moderating, defying the worries about over-tightening and a hard-landing. Since price pressures remain in the service sector and the overall economy, the moderation in growth is helpful to contain inflation, in addition to the ongoing tightening measures."*

### Key points

- Further rise in private sector output signalled.
- Composite input cost inflation eases to slowest rate since August 2010.
- Service sector business confidence dips to series-record low.

### Historical Overview



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**Notes to Editors:**

The HSBC China Services *PMI*<sup>TM</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>TM</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 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*<sup>TM</sup> (*PMI*<sup>TM</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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