

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

Combined growth of manufacturing and services output improves to three-month high in September

### Summary

September data showed growth of China's private sector strengthening from near-stagnation in August. This was signalled by a rise in the seasonally adjusted HSBC Composite Output Index (covering manufacturing and services) to a three-month high of 51.5. However, the index was well below the long-run series average (54.6). Moreover, for Q3 as a whole, the index averaged its lowest quarterly reading since Q1 2009.

The uptick in overall output growth primarily reflected a faster increase in Chinese service sector activity, with the seasonally adjusted Business Activity Index climbing from a series-record low of 50.6 to 53.0 in September. The rate of expansion was solid, but remained subdued in the context of historical data. Where an increase in business activity was signalled, survey respondents commonly linked this to greater inflows of new business.

New business received by Chinese service providers rose again in September, extending the current period of growth to 34 months. Despite accelerating to the fastest in three months, the rate of expansion in new work was slower than the long-run average for the survey. In contrast, manufacturing new orders fell marginally in the latest survey period.

Chinese service providers continued to report few difficulties in dealing with existing workloads, with outstanding business falling further in September. However, the rate of backlog depletion was only marginal. This was offset by a slight rise in work-in-hand at manufacturers. As a result, outstanding business was broadly unchanged at the composite level.

September data pointed to another increase in Chinese service sector employment, although the pace of growth was only modest. With a fractional decline in manufacturing employment recorded, the rate of job creation across the private sector as a whole was only marginal.

Average input costs faced by service sector firms rose further in September. Despite easing to an 11-month low, the pace of inflation was marked, and stronger than the long-run trend. With a sharper increase in manufacturers' purchases costs recorded, the overall pace of input price inflation reached a four-month high in September. Similarly, steeper increases in average tariffs set by both manufacturers and service providers drove overall charge inflation to a five-month peak.

When questioned about the prospects for activity at their units over the next 12 months, service providers in China expressed optimism regarding the business outlook. However, the extent of positive sentiment was the joint second-lowest in the series history. Companies operating in the Renting & Business Activities sector cited policies aimed at cooling the property sector as having dampened business confidence.

### Comment

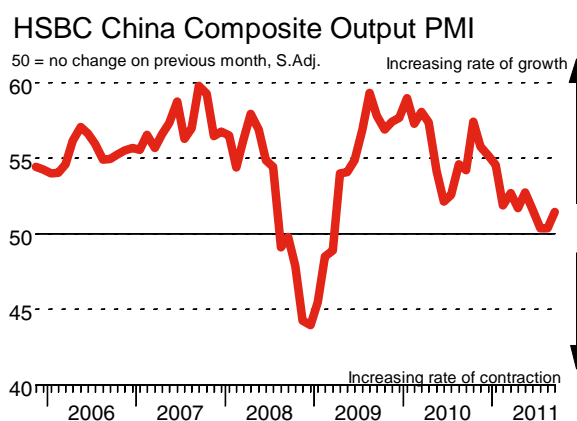
Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"September's HSBC Services PMI rebounded meaningfully, pointing to a possible bottoming out of the services economy towards the end of the year. Combined with an improvement in the manufacturing PMI, this implies that despite the global slowdown China is still well on track for a soft landing. We expect GDP growth to hold up at 8.5%-9% in the coming quarters."*

### Key points

- Stronger service sector growth registered
- Overall input price inflation hits four-month high
- Service sector business optimism remains subdued

### Historical Overview



**For further information, please contact:**

**HSBC**

Hongbin Qu, Chief Economist, China & Co-Head  
of Asian Economic Research  
Telephone +852-2822-2025  
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Group Communications, China  
Telephone +86 21 3888 1251  
Email dianayqmao@hsbc.com.cn

**Markit**

Alex Hamilton, Economist  
Telephone +44-1491-461-076  
Email alex.hamilton@markit.com

Rachel Harling, Corporate Communications  
Telephone +44-20-7064-6283  
Mobile +44-782-789-1072  
Email rachel.harling@markit.com

**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).

**HSBC:**

Headquartered in London, HSBC is one of the world's largest banking and financial services organisations and one of the industry's most valuable brands. We provide a comprehensive range of financial services to around 89 million customers through two customer groups, Retail Banking and Wealth Management (formerly Personal Financial Services) and Commercial Banking, and two global businesses, Global Banking and Markets and Global Private Banking.

Our international network covers 87 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 129 countries and territories.

**About Markit:**

Markit is a leading, global financial information services company with over 2,200 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see [www.markit.com](http://www.markit.com)

**About PMIs:**

*Purchasing Managers' Index*<sup>TM</sup> (*PMI*<sup>TM</sup>) 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](http://www.markiteconomics.com)

The intellectual property rights to the HSBC China Services and Composite *PMI*<sup>™</sup> provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*<sup>™</sup> and *PMI*<sup>™</sup> are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.