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HSBC China Services PMI

Growth of Chinese service sector continued to gain momentum, with new work and business activity increasing at near-record rates.

Key findings:

- Strong rise in business activity signalled.
- New business growth accelerated.
- Job creation the fourth-fastest in the series history.

This report contains the release of data collected from a monthly survey of business conditions in the Chinese private sector services economy. The survey, produced by Markit Economics, has been conducted since November 2005 and provides the earliest indication of service sector business conditions in China.

The headline index from the survey (the seasonally adjusted HSBC Business Activity Index) rose to 60.6 in August, from 60.1 in the previous month, to indicate that business activity within the Chinese service sector increased at the most marked rate in just under two years. Those panellists that signalled a rise in activity frequently linked this to further gains in new business and improved economic sentiment.

Levels of incoming new work placed at Chinese service providers rose again in August, extending the current sequence of rising sales to nine months. New business growth was the strongest for twenty-six months, and the second-fastest recorded by the series to date. Evidence provided by the survey panel suggested that further signs of economic recovery had encouraged client spending. There were also reports that new product developments and promotional campaigns had pushed sales higher in August.

Volumes of unfinished business at Chinese service providers were reduced for the twenty-sixth month running in August. That said, the rate of backlog clearance was only modest, easing to the weakest for four months. The slower reduction in backlogs largely reflected buoyant client demand.

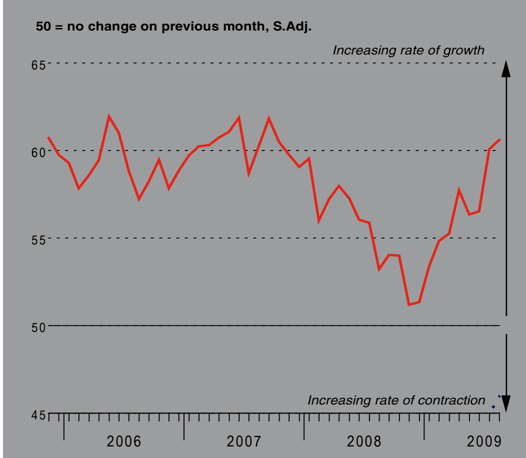
August figures signalled that employment in the Chinese service sector rose for the seventh successive month, increasing at the fourth-fastest rate since the inception of the series in November 2005. Of those respondents that reported a rise in staffing levels, many linked this to improved sales performance and business expansion plans.

Prices charged by Chinese service providers increased for the second consecutive month in August. However, the rate at which firms raised their output charges was only slight. Anecdotal evidence suggested that rising input costs had encouraged firms to increase their prices charged.

Inputs costs faced by Chinese service providers rose for the fifth straight month in August, although inflation was lacklustre by the historical standards of the survey. Panellists reported that increased wage bills and rising raw material prices had placed added pressure on firms' cost burdens.

August data signalled that firms remained highly optimistic about the one-year outlook for activity, mainly reflecting buoyant prospects for demand and the wider Chinese economy.

Business Activity Index



The survey uses a methodology identical to the HSBC China Manufacturing PMI. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Chinese services economy.

Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously.

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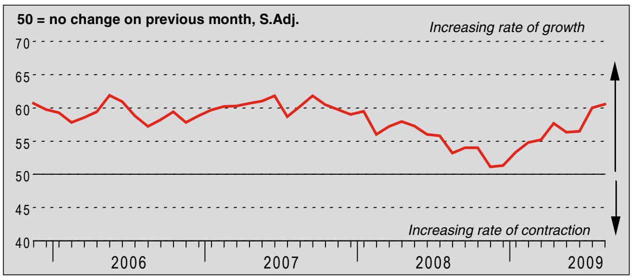
The HSBC China Services PMI series is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

Copies of the report are available on annual subscription from Markit. For subscription details please contact: **economics@markit.com**

Business Activity Index

Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	31.1	51.4	17.5	13.6
	Apr	33.5	56.0	10.5	23.0
	May	25.8	63.1	11.1	14.6
	Jun	25.8	61.9	12.3	13.4
	Jul	30.6	59.5	10.0	20.6
	Aug	28.2	62.3	9.4	18.8

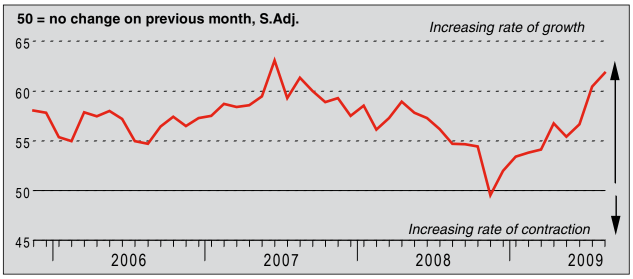


Consistent with the trend seen since the inception of the series in November 2005, business activity in the Chinese service sector increased in August. The seasonally adjusted Business Activity Index maintained its upward trajectory, pointing to a strong expansion of output that was the most marked in just under two years. Approximately 28% of the survey panel reported an increase in activity levels from a month ago, with the majority linking this to strong client demand. There were also reports that business development strategies and improved economic conditions had driven activity higher in August.

New Business Index

Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	26.0	57.6	16.4	9.6
	Apr	29.1	59.1	11.8	17.3
	May	24.4	65.1	10.5	13.9
	Jun	26.8	63.5	9.8	17.0
	Jul	28.9	61.1	10.0	18.9
	Aug	28.8	63.0	8.2	20.7

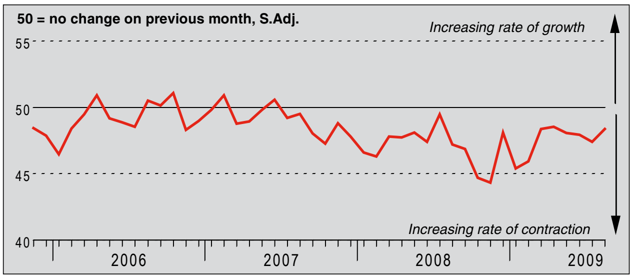


Levels of incoming new business received by Chinese service providers rose again in August, with almost 29% of firms surveyed reporting an increase from a month earlier. The seasonally adjusted New Business Index rose to its second-highest level in the series history, to signal that new business growth remained considerable. Respondents cited promotional activities and new product developments as having a positive impact upon sales levels, while further signs of economic recovery also encouraged client spending. Volumes of new work have risen in each of the past nine months.

Outstanding Business Index

Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	7.6	83.0	9.3	-1.7
	Apr	5.1	88.7	6.2	-1.0
	May	3.4	89.0	7.6	-4.2
	Jun	2.6	90.9	6.4	-3.8
	Jul	4.4	88.1	7.5	-3.1
	Aug	4.3	89.1	6.6	-2.2

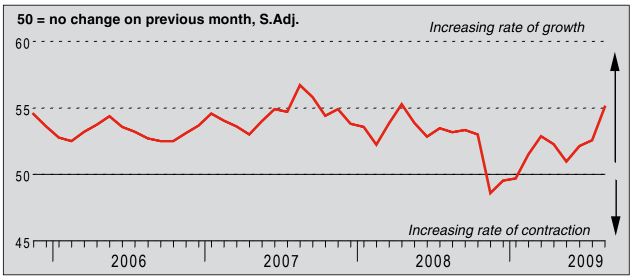


The seasonally adjusted Outstanding Business Index remained below the critical no-change mark of 50.0 in August, to signal that volumes of work-in-hand (but not yet completed) in the Chinese service sector decreased for the twenty-sixth month in succession. The rate at which backlogs were depleted was modest, despite easing to the weakest for four months. Where panel members reported a reduction in outstanding business levels, many attributed this to spare resources at their units. Of those respondents that signalled a rise in backlogs, the majority linked this to strong gains in new business.

Employment Index

Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).

		Higher %	Same %	Lower %	Net +/-
2009	Mar	13.2	80.1	6.7	6.4
	Apr	10.8	83.3	5.9	4.9
	May	6.6	89.5	4.0	2.6
	Jun	9.5	86.0	4.5	5.0
	Jul	12.0	84.1	3.9	8.0
	Aug	15.9	80.4	3.7	12.3

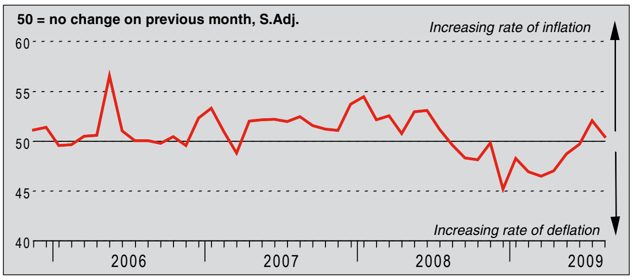


August data pointed to the seventh successive monthly expansion of workforce numbers in the Chinese service sector. The pace at which companies recruited additional workers accelerated for the third month in a row to its fourth-sharpest since the start of the series in November 2005. Just under 16% of firms reported a rise in staffing levels since July, against almost 4% that indicated a contraction. Anecdotal evidence suggested that companies had bolstered their employee numbers in line with strong gains in new work. Business expansion plans and graduate intakes were also cited as key factors leading employment higher in August.

Prices Charged Index

Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	4.9	81.8	13.3	-8.4
	Apr	4.5	86.2	9.3	-4.7
	May	4.3	89.1	6.6	-2.3
	Jun	8.0	84.8	7.3	0.7
	Jul	9.0	87.1	3.9	5.1
	Aug	3.1	93.9	2.9	0.2

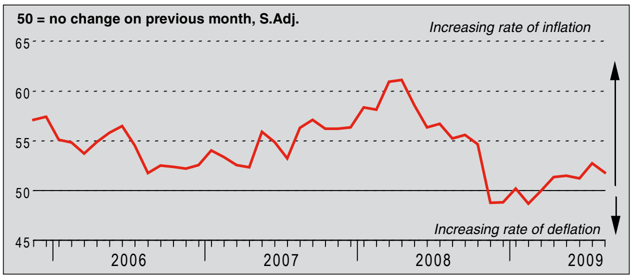


Output prices set by Chinese service providers rose for the second month running in August. However, a drop in the seasonally adjusted Prices Charged Index signalled that output price inflation was only slight, with the vast majority of companies (approximately 94%) reporting no-change from a month earlier. Where companies opted to raise their output charges, many attributed this to stronger pricing power and increased input costs. Of those survey participants that reported reducing tariffs, the majority linked this to strategies aimed at gaining new business amid increased competition.

Input Prices Index

Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	8.2	84.2	7.6	0.6
	Apr	10.4	83.7	5.9	4.5
	May	9.7	84.4	6.0	3.7
	Jun	7.6	86.9	5.5	2.1
	Jul	8.6	88.4	3.0	5.6
	Aug	5.4	91.8	2.8	2.5

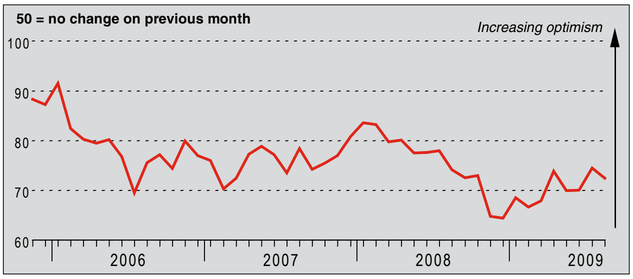


Average cost burdens faced by companies operating in the Chinese service sector rose for another month in August, extending the current sequence of inflation to five months. Even so, the latest increase remained relatively lacklustre compared with the robust rates of inflation registered throughout much of the series history. Almost 92% of those companies surveyed signalled that input prices remained unchanged from the month before. Evidence provided by the survey panel suggested that rising raw material prices had driven input costs higher in August. Increased labour-related costs were also cited as having an inflationary impact upon cost burdens.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net +/-
2009	Mar	47.3	41.4	11.3	35.9
	Apr	51.4	44.9	3.7	47.7
	May	46.6	46.8	6.6	39.9
	Jun	44.0	52.1	3.9	40.2
	Jul	51.8	45.4	2.8	49.0
	Aug	48.1	48.8	3.1	45.0



August data signalled that Chinese service providers remained optimistic about the one-year outlook for activity. Despite remaining below the series average, the Business Expectations Index was at a level indicative of a buoyant degree of optimism. Just over 48% of the survey panel forecast overall activity to be higher in twelve months time, with anecdotal evidence suggesting that service providers anticipate the economic recovery to gain traction during the forthcoming year. A number of respondents also noted that they expect new product developments and business expansion plans to boost growth over the year ahead.

Notes on the Data and Method of Presentation

The China Services PMI covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on.

Warning