

Embargoed until: 10:30 (BEIJING), 9 October 2009



HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 8,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,422 billion at 30 June 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

For further information contact:

**Hongbin Qu**  
Chief Economist, China

Issued by  
HSBC Holdings plc  
8 Canada Square  
London E14 5HQ.  
United Kingdom

© Copyright HSBC Holdings plc 2009.  
All Rights Reserved

**hsbc.com**



Markit Economics  
Henley on Thames  
Oxon RG9 1EL, UK  
Tel: +44 1491 461000  
Fax: +44 1491 461001  
e-mail: [economics@markit.com](mailto:economics@markit.com)

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](mailto:economics@markit.com)

## HSBC China Services PMI

Activity and new business levels rose substantially in September, albeit at slowest rates for three months.

### Key findings:

- Activity growth eased to three-month low.
- New work rose again, but at a weaker rate than August's record.
- Input price inflation the strongest for eleven months.

Despite falling to its lowest level for three months, the headline index from the survey (the seasonally adjusted HSBC Business Activity Index) remained comfortably above the neutral level of 50.0 in September, posting 58.1, pointing to a substantial expansion of business activity in the Chinese service sector. Where a rise in activity levels was signalled, this was frequently linked to further gains in new business. Some companies also cited new product launches as having boosted services output.

Levels of incoming new work placed at Chinese service providers increased again in September, mainly reflecting improved client demand. Sales levels have risen through the majority of the series history, with last November the only exception. There were also reports that promotional activities and continued signs of economic recovery had pushed new business levels higher.

Although sales levels rose further, backlogs of work in the Chinese service sector were depleted again in September, extending the current period of decline to twenty-seven months. Despite remaining moderate, the rate at which outstanding business levels were reduced was the joint fastest for seven months. Those companies that reported a fall in work-in-hand generally attributed this to spare resources at their units.

Chinese services employment rose at a solid rate in

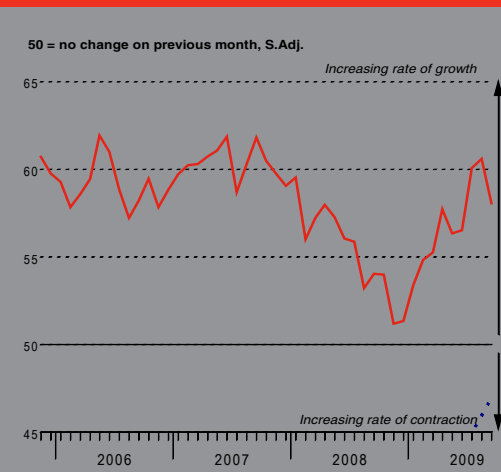
September, although the overall reduction was slightly slower than that seen in August. Job creation has now been recorded for eight successive months. Evidence provided by the survey panel linked employment growth to continued increases in new business. Meanwhile, some reports suggested that companies had bolstered their workforce numbers by recruiting new graduates.

Prices charged rose for the third month running in September, principally reflecting firmer client demand and rising costs for a range of inputs. Although output price inflation was only modest, it accelerated to the second-fastest since July 2008.

Average costs burdens face by Chinese service providers continued to rise in September, with many survey participants linking this to increased labour-related and promotional costs. Input prices rose at a pace that was the most marked in the current six-month period of inflation. Even so, the overall increase in average input costs remained historically weak.

Business expectations in the Chinese service sector remained highly positive in September, in line with the trend seen since the inception of the series. Those firms that anticipate activity levels to rise over the forthcoming year widely attributed this to buoyant prospects for client demand and the wider Chinese economy.

### Business Activity Index



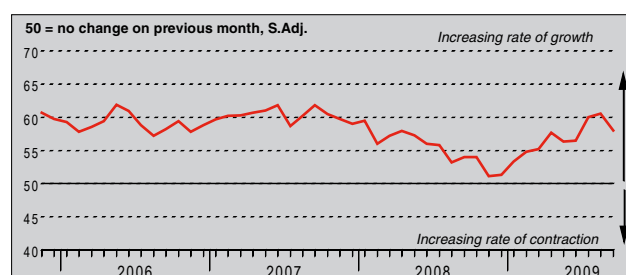
The survey uses a methodology identical to the HSBC China Manufacturing PMI. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of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

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

### 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	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
	Sep	28.8	57.6	13.6	15.1

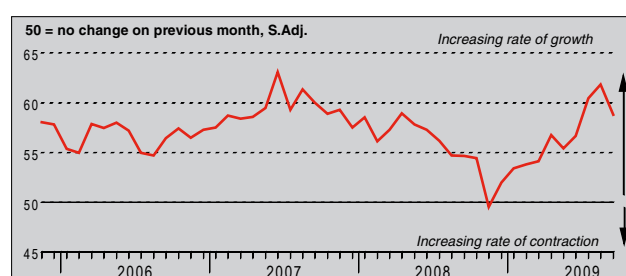


Business activity in the Chinese service sector rose again in September, in line with the trend seen throughout the survey history. Although down on August's twenty-three month high, the latest expansion of activity was substantial and the third-strongest since January 2008. Almost 29% of survey participants reported an increase in services output from a month ago, with the majority attributing this to rising sales levels. There were also reports that new product developments, further signs of economic recovery and an improvement in the willingness of banks to lend had led activity levels higher in September.

### 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	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
	Sep	29.6	57.4	13.0	16.7

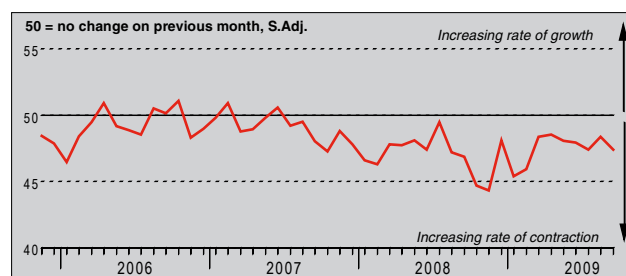


Levels of incoming new business received by companies operating in the Chinese service sector increased for the tenth successive month in September. Despite falling from August's record peak, the seasonally adjusted New Business Index remained firmly above the neutral 50.0 threshold, pointing to a substantial rise in sales levels. Where an expansion of new work was signalled, panellists generally attributed this to stronger client demand, reflecting improved economic conditions. Promotional activities and new product launches were also cited as having boosted customer spending.

### 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	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
	Sep	3.7	86.7	9.5	-5.8

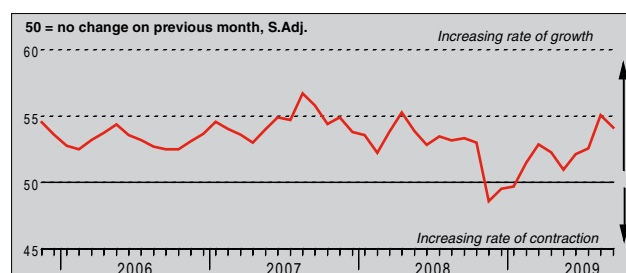


Although new business levels continued to rise, companies were again able to complete existing contracts in September, thereby extending the current sequence of backlog clearance to twenty-seven months. What's more, the rate at which outstanding business volumes were completed accelerated to the joint fastest since February. Of those service providers that reported a reduction in work-in-hand (almost 10%), many linked this to spare resources at their units. Where an increase in unfinished business was indicated, companies predominantly attributed this to further 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	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
	Sep	12.8	83.4	3.8	9.0

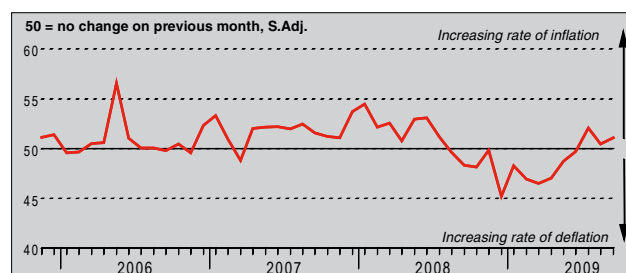


Employment in the Chinese service sector increased further in September, with almost 13% of companies surveyed reporting an expansion of workforce numbers from the month before. Data signalled that staffing levels rose at a pace that, although slightly weaker than that seen in August, was solid and the second-sharpest since April 2008. Anecdotal evidence suggested that continued gains in new business encouraged companies to hire additional workers, while graduate recruitment programmes were also cited as having boosted staff numbers. Job creation has now been registered in each of the past eight months.

## 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	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
	Sep	5.7	90.0	4.3	1.4

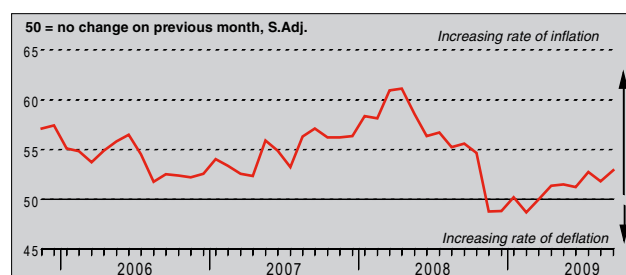


The seasonally adjusted Prices Charged Index remained above the neutral level of 50.0 in September, pointing to a modest rise in output prices that was faster than that seen in August. The index has now hovered above the no-change mark for three successive months. Increased labour-related costs, an improvement in market conditions and product shortages were cited as key sources of inflationary pressure. Where a reduction in output prices was signalled, some companies reported that competitive pressures remained strong in the sector, restricting their ability to raise charges.

## 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	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
	Sep	10.1	86.4	3.6	6.5

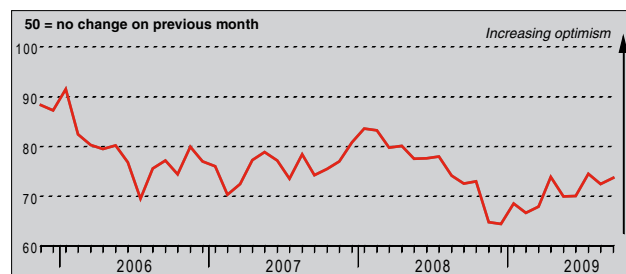


Average input costs faced by Chinese service providers rose at a pace that, although slower than the series average, was the strongest in just under a year. September marked the sixth successive month in which input prices have increased. Just over 10% of firms reported a rise in input costs from a month ago, almost double the proportion registered in August. Rising prices for petroleum-related products and capital expenditure projects were reported to have driven overall input costs higher. There were also reports that increased salary and advertising costs continued to place upward pressure on firms' 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	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
	Sep	52.1	43.3	4.6	47.5



Optimism about the one-year outlook for activity in the Chinese service sector showed no signs of waning in September, with the Business Expectations Index remaining comfortably above the neutral level of 50.0 – consistent with the trend seen throughout the series history. Despite remaining lower than the series average, the degree of confidence within the sector was again considerable. New business developments, improved economic prospects, business expansion plans and new product launches were cited as key factors expected to boost activity levels over the forthcoming year.

## 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

The intellectual property rights to the HSBC China Services PMI provided herein is owned by Markit Group 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. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.