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HSBC China Services PMI

Activity and new business growth remained robust in October, despite easing. Business confidence strengthened further.

Key findings:

- Output rose strongly, albeit at slowest rate for four months.
- New business growth slowest since May, but still robust.
- Backlogs of work continued to fall.

The headline seasonally adjusted HSBC Business Activity Index posted 56.5 in October, down from 58.1 in the previous month. That signalled further activity growth in the Chinese service sector, albeit at the least marked rate for four months. Where an increase in services activity was signalled, companies widely attributed this to further gains in new business. Improved economic conditions were also cited as having supported activity growth in October.

Levels of new business placed at firms operating in the Chinese service sector rose again in October, extending the current period of expansion to eleven months. Despite easing to the weakest since May, growth of new orders was still robust. Evidence provided by the survey panel suggested that demand was supported by improved sentiment regarding economic conditions, alongside new product developments.

Backlogs of work in the Chinese service sector were depleted for the twenty-eighth month running in October, decreasing at a broadly similar rate to that seen throughout most of 2009 so far. Another month of backlog clearance alongside further increases in new business suggested that service providers had sufficient capacity to deal with current workloads in the October survey period.

Job creation was registered in the Chinese service sector for the ninth consecutive month in October. Companies hired additional workers at a pace that was slightly faster than the historical average for the series, but nevertheless the weakest for three

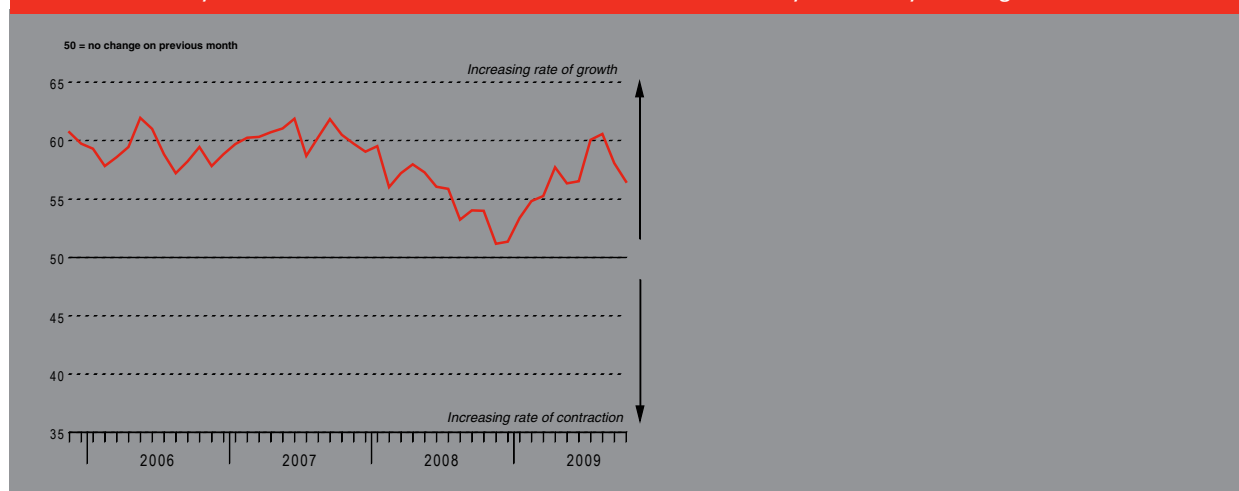
months. Those survey respondents that registered a rise in staffing levels widely attributed this to greater inflows of new business. Ongoing workforce restructuring and graduate recruitment were also cited as having bolstered staff numbers in October.

Average input costs faced by Chinese service providers fell in October for the first time in eight months. Even so, the rate of decline was only fractional. Of those companies that reported a decrease in purchase costs, many linked this to falling raw material prices. Reduced labour-related costs were also cited by a number of panellists in October.

Prices charged by Chinese service sector firms increased for the fourth successive month in October. The rate at which output charges were raised was modest, albeit the most marked for three months. Panellists that reported output price inflation frequently linked this to firmer client demand.

In line with the trend seen throughout the survey history, Chinese service providers remained highly optimistic about the one-year outlook for activity in October. Business development plans, new product launches, improved economic prospects and expectations that market demand will improve over the year ahead were all cited as factors strengthening confidence. However, the degree of sentiment remained below the historical average for the series, suggesting that optimism has still not recovered to the buoyant levels seen prior to the global financial crisis.

Business Activity Index



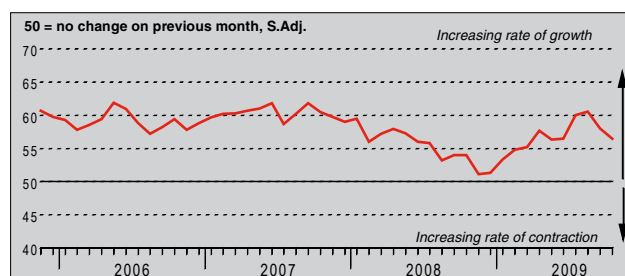
Summary of Survey Findings

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	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
	Oct	23.8	55.6	20.6	3.2

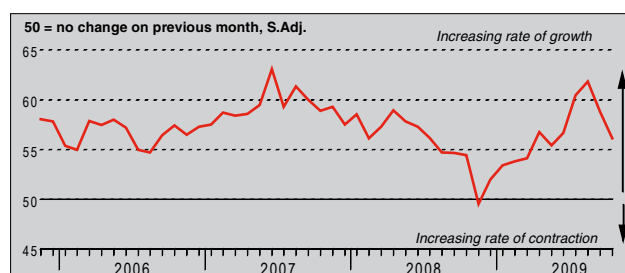


Data signalled that business activity in the Chinese service sector continued to rise in October. Despite remaining comfortably above the neutral level of 50.0, the seasonally adjusted Business Activity Index fell for the second month in succession, pointing to the weakest increase in services output for four months. Activity levels have risen in each month since the start of the series in November 2005. Those panellists that reported output growth widely attributed this to greater inflows of new business. There were also reports that improved economic conditions had led business activity higher in October.

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	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
	Oct	20.2	65.4	14.4	5.8

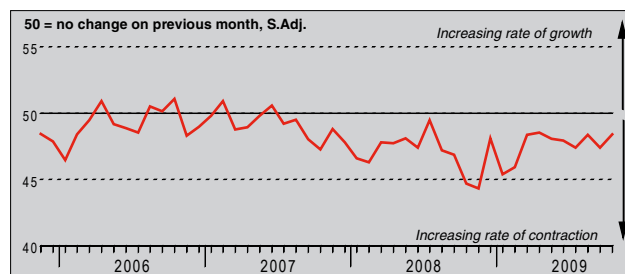


Levels of incoming new business received by Chinese service providers increased again in October, extending the current period of expansion to eleven months. However, new order growth was the weakest since May, as indicated by a drop in the seasonally adjusted New Business Index to a level below the series average. More than one-fifth of respondents reported a rise in new work from the month before, with the majority attributing this to firmer market demand. Some survey participants also cited improved economic conditions as having boosted client confidence and subsequently sales.

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	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
	Oct	6.7	84.5	8.8	-2.1

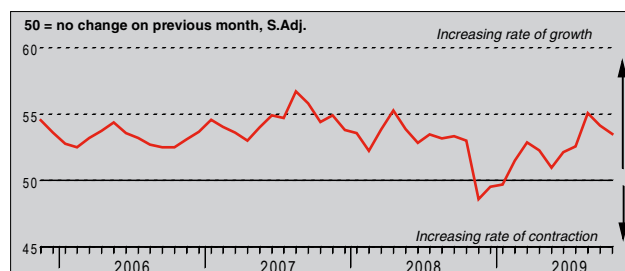


October data pointed to the twenty-eighth consecutive monthly decline in outstanding business at Chinese service providers. Almost 9% of companies monitored by the survey reported a reduction in work-in-hand from a month earlier. However, the majority of panellists (approximately 85%) reported no change. The rate at which backlogs were depleted remained modest and broadly consistent with that seen throughout the majority of 2009 so far. Reduced unfinished business, alongside marked new order growth, suggested that firms encountered few capacity pressures in October.

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	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
	Oct	7.9	89.8	2.4	5.5

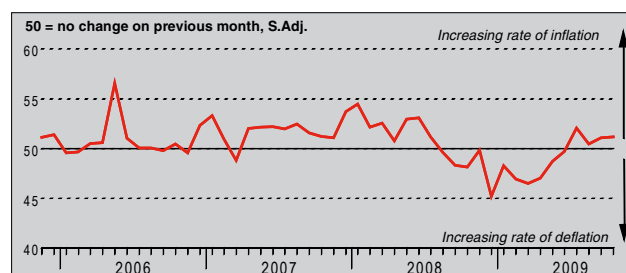


Services employment in China rose for the ninth successive month in October. The seasonally adjusted Employment Index signalled that workforce numbers increased at a rate that, although solid, was the least marked for three months. Almost 8% of panellists reported a rise in staffing levels from a month ago, more than three times the proportion that signalled a reduction. Those survey participants that indicated employment growth widely attributed this to further gains in new business. Business expansion policies and graduate recruitment schemes were also cited as having led staff numbers higher.

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	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
	Oct	5.7	91.1	3.2	2.5

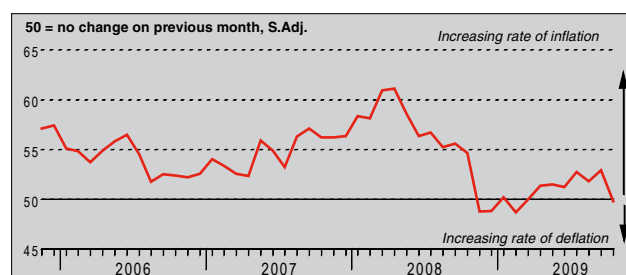


Output prices set by Chinese service providers increased for the fourth successive month in October. The seasonally adjusted Prices Charged Index rose fractionally to its second-highest level for sixteen months (only surpassed by that registered in July), pointing to a modest increase in services charges. However, the vast majority of panellists (more than 91%) reported that output prices remained unchanged from one month previously. Where an increase in prices charged was signalled, survey respondents widely attributed this to strong underlying demand. Some financial intermediation firms noted that higher operating costs, reflecting new insurance laws, had prompted price rises.

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	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
	Oct	5.1	86.6	8.3	-3.2

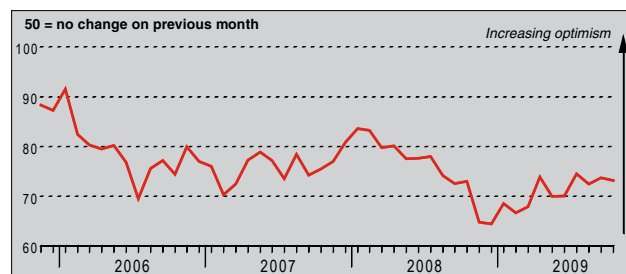


The seasonally adjusted Input Prices Index signalled that average input costs faced by Chinese service providers fell in October, thereby ending a period of inflation that had lasted for six months. Even so, the rate of decline of input prices was only fractional. More than 8% of survey participants reported a reduction in operating costs from the month before. This was up from just under 4% in September. Those companies that reported a decline in input costs generally attributed this to falling prices for a number of raw materials. Reduced salary costs were also cited as having a downward influence on firms' costs 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	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
	Oct	49.7	47.1	3.2	46.4



Expectations about the one-year outlook for activity amongst Chinese service providers remained strong in October, with almost half of companies monitored by the survey reporting that they anticipate business activity to be higher in twelve months' time. In contrast, only 3% forecast a reduction. The strong degree of optimism was primarily linked by panellists to confidence over prospects for the Chinese economy. A number of service sector companies also linked the positive outlook to new product developments, business expansion plans and improved market demand.

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.

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