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HSBC China Services PMI

Robust activity growth supported by further gains in new business.

Key findings:

- Services output rose markedly.
- New business growth remained robust.
- Confidence remained strong despite easing to five-month low.

The headline seasonally adjusted HSBC Business Activity Index posted 57.1 in November, up slightly from 56.5 in the previous month, pointing to further strong growth of Chinese services activity. However, the index reading was comfortably below the near-record seen in August. Of those respondents that reported a rise in business activity, many attributed this to continued gains in new work. There were also reports that business expansion policies, favourable trading conditions and new product launches had supported activity growth in November. Services output growth has been maintained throughout the series history.

Levels of incoming new business received by Chinese service providers rose again in November, extending the current period of rising sales to twelve months. The rate of expansion remained marked, identical to that seen in October, but slower than the near-record registered in August. Where a rise in new business was signalled, panellists often linked this to firmer client demand, reflecting a promising outlook for economic activity.

Data signalled that further gains in new work did little to alter the trend in outstanding business levels, which continued to fall in November. However, the rate at which backlogs were depleted was only modest and the least marked since July 2008. A number of survey participants reported that volumes of work-in-hand (but not yet completed) were reduced as a result of efficiency gains.

November figures indicated that staffing levels in the Chinese service sector rose for the tenth month in succession, increasing

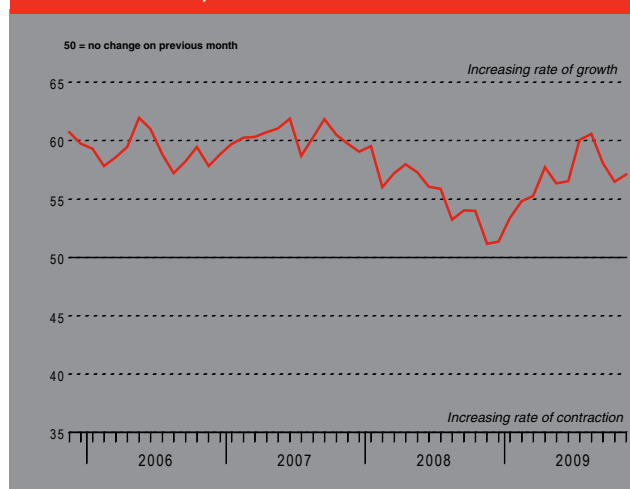
at a rate that, although solid, was the least marked since July. Those respondents that reported bolstering their workforce numbers frequently linked this to rising sales volumes. Business expansion plans were also cited as having a positive impact upon service providers' recruitment decisions.

Average input costs faced by firms operating in the Chinese service sector rose in November following a marginal reduction in the previous month. However, the rate of inflation was relatively lacklustre compared to that seen prior to the onset of the financial crisis. A number of companies attributed inflation to increased wage bills, while there were also reports that rising raw material prices, in particular coal and oil, had generated inflationary pressure in November.

Prices charged by Chinese service providers rose for the fifth successive month in November. Prior to this sequence, output price deflation had been recorded for eleven months. Where an increase in output charges was signalled, panellists attributed this to rising prices for a range of raw materials. However, some companies continued to report that their pricing power remained weak, with many bemoaning competitive pressures.

Business expectations in the Chinese service sector were highly positive in November, although the degree of optimism was the least marked for five months. Companies generally attributed confidence to buoyant prospects for demand and the wider Chinese economy. New product launches were also mentioned by some panellists.

Business Activity Index



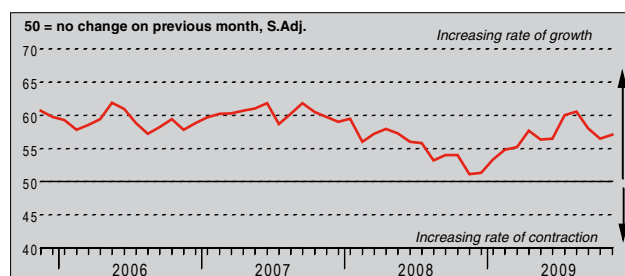
Summary of Survey Findings

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	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
	Nov	25.4	65.4	9.2	16.2

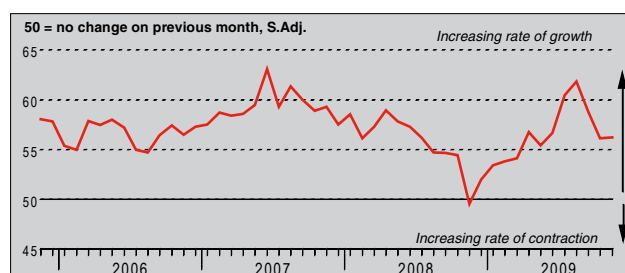


Business activity in the Chinese services economy increased in November, in line with the trend seen throughout the series history. Despite pointing to a marked expansion of services output, the seasonally adjusted Business Activity Index remained below the series average. More than one-quarter of firms monitored by the survey reported a rise in activity from a month ago, with the majority attributing growth to rising sales volumes. There were also reports of favourable trading conditions, new product developments and business expansion plans.

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	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
	Nov	22.0	68.7	9.3	12.8

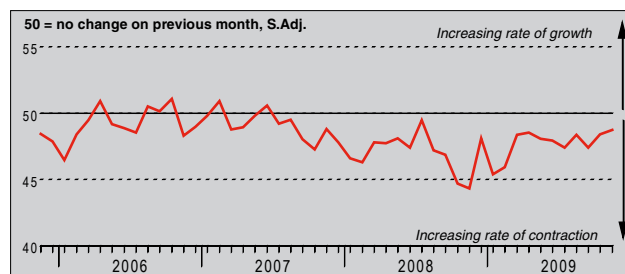


The seasonally adjusted New Business Index remained above the neutral level of 50.0 for the twelfth month running in November, pointing to a marked rise in new business received by Chinese service providers. Exactly 22% of firms reported an increase in new orders since October, compared with around 9% that signalled a decline. Where a rise in new business was indicated, this was often linked to firmer client demand. Increased market activity was also cited as having supported new business growth in November.

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	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
	Nov	3.2	89.6	7.2	-4.0

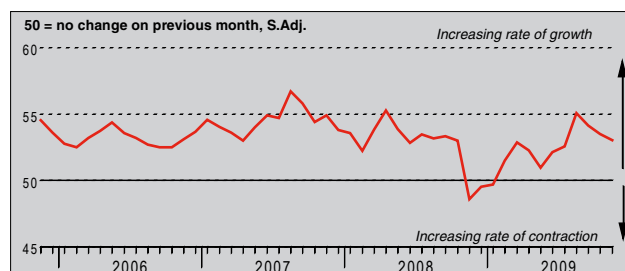


Although new business levels continued to rise, volumes of work-in-hand in the Chinese service sector fell further in November, thereby extending the current period of decline to twenty-nine months. However, the rate at which backlogs were depleted eased to the slowest since July 2008. Of those firms that signalled a reduction in unfinished business (just over 7%), many attributed this to spare capacity at their units. Efficiency gains were also mentioned by some panellists.

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	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
	Nov	7.6	89.9	2.5	5.1

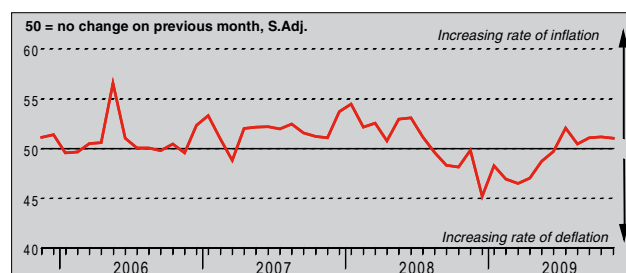


Services employment in China rose for the tenth consecutive month in November. Despite falling for the third month in a row to a level below the series average, the seasonally adjusted Employment Index nevertheless pointed to a solid rate of expansion. Those respondents that reported a rise in staffing levels frequently linked this to greater inflows of new work. Business expansion plans were also cited as having influenced firms' recruitment decisions in November.

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	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
	Nov	4.0	92.3	3.7	0.3

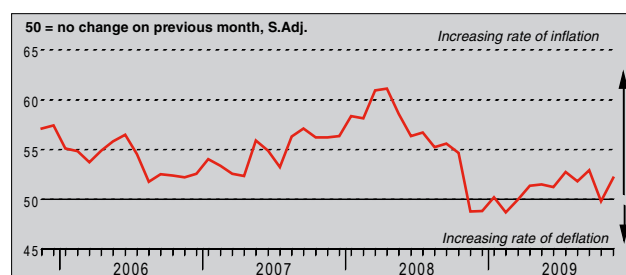


The seasonally adjusted Prices Charged Index remained above the neutral 50.0 threshold in November, signalling that output prices set by Chinese service providers rose for the fifth month running. Even so, the rate of inflation was only modest, with the majority of respondents (more than 92%) reporting no-change from a month ago. Evidence provided by the survey panel suggested that increased output charges reflected rising raw material prices. Meanwhile, competitive pressures continued to restrict the ability of some firms to raise their 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	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
	Nov	8.6	88.6	2.8	5.8

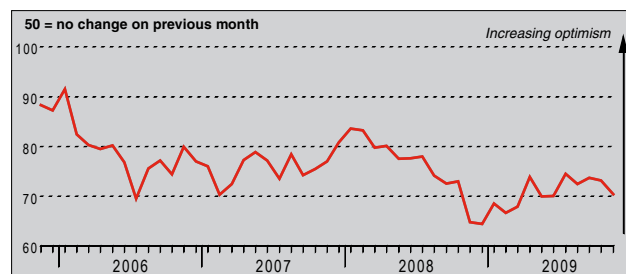


Average cost burdens faced by Chinese service providers rose in November following a slight decrease in the previous month. However, the seasonally adjusted Input Prices Index was at level indicative of only a modest rate of inflation that was slower than that seen prior to the onset of the financial crisis. Where companies reported a rise in the average cost of their purchases, many attributed this to rising wage bills. Cleaning equipment, coal and petroleum-related products were all reported to have risen in price during the latest survey period.

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	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
	Nov	44.9	51.0	4.0	40.9



Chinese service providers remained highly confident about the one-year outlook for business activity in November, with almost 45% of companies reporting that they expect activity levels to be higher in twelve months' time. However, the degree of optimism was the most subdued for five months, and weaker than the series average. New product developments, business expansion strategies, buoyant economic prospects and a promising outlook for demand were all cited as having supported positive sentiment in November.

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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