HSBC Purchasing Managers' Index 2010

compiled by markit

Embargoed until: 10:30 (BEIJING), 6 January 2010

HSBC China Services PMI

Business activity in the Chinese service sector continued to rise markedly during December.

Key findings:

- Activity growth remained robust.
- Renewed growth of outstanding business.
- Charges reduced marginally in December.

The headline seasonally adjusted HSBC Business Activity Index posted 57.2 in December, up slightly from 57.1, pointing to a marked rise in business activity amongst Chinese service providers that was the fastest for three months. However, the headline index posted a lower average reading in Q4 than for Q3 as a whole. Where a rise in services output was signalled, many companies attributed this to continued gains in new business and favourable trading conditions.

Levels of incoming new work received by Chinese service providers rose in December, extending the current period of growth to thirteen months. Although the pace of expansion was the most marked since September, it was slower than those seen throughout Q3. Those respondents that signalled a rise in new business widely attributed growth to firmer client demand. New product developments were also cited by some panellists as having supported new business growth in the latest survey period.

December figures signalled that volumes of work-in-hand (but not yet completed) in the Chinese service sector rose for the first time since June 2007. Even so, the accumulation of backlogs was only slight. Survey participants reported that renewed growth of unfinished business mainly reflected greater inflows of new work.

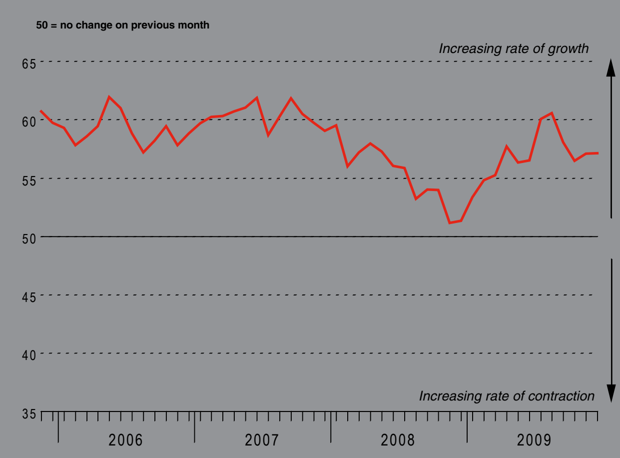
Staffing levels in the Chinese service sector rose for the eleventh successive month in December, increasing at solid rate that was the fastest for three months. Evidence provided by the survey panel suggested that firms increased their staff numbers in response to further gains in new business. Graduate recruitment schemes and a positive outlook for demand were also cited as having supported employment growth.

Average cost burdens faced by companies operating in the Chinese service sector rose for the second month running in December. The rate of inflation was solid, accelerating to the most marked since October 2008. Panellists mentioned that rising demand for raw materials, such as copper and oil, continued to generate marked inflationary pressure. Electricity was also reported to have risen in price during December.

Prices charged by Chinese service sector companies were reduced for the first time in six months during the latest survey period. However, the rate of decline was only fractional. Many companies reported lowering their charges in an attempt to stimulate sales amid strong competition. Of those firms that signalled a rise in output prices, the majority attributed this to higher input costs.

December data signalled that Chinese service providers remained confident about the one–year outlook for business activity. Despite climbing to its most marked in seventeen months, the degree of optimism remained lower than the historical average for the series. Anecdotal evidence suggested that positive sentiment was based on a combination of planned business expansions, growing markets, the launch of new products and positive economic prospects.

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.

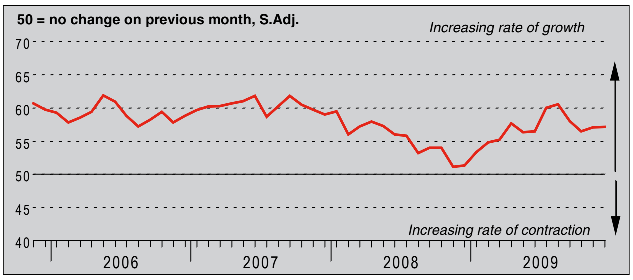
Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously.

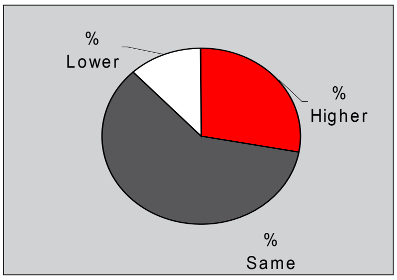
markit

HSBC
The world's local bank

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.

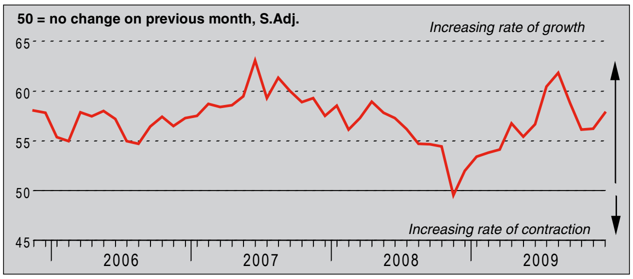


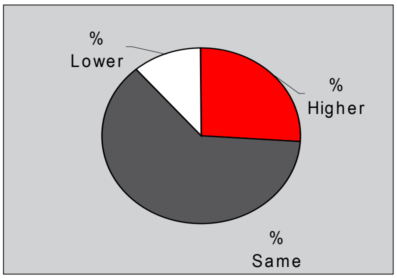


Business activity in the Chinese service sector continued to rise in December, with more than 28% of companies reporting an increase from a month ago. The rate of expansion remained marked, albeit slightly slower than the historical average for the series. Where a rise in services output was signalled, panellists widely attributed this to further gains in new business and favourable trading conditions. Activity growth has been maintained throughout the series history.

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.

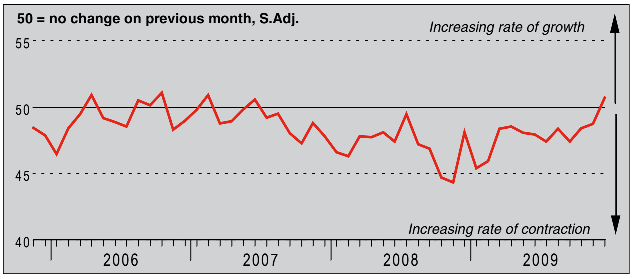


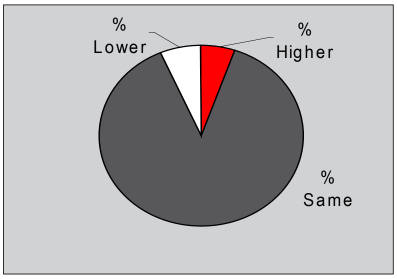


Levels of incoming new business placed at Chinese service providers rose for the thirteenth month running in December, increasing at a marked rate that was the fastest since September. Of those companies that reported a rise in sales since November (more than 26%), the majority attributed this to firmer market demand. Some companies also cited new product launches and higher levels of promotional activity as having supported new business growth in December.

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.

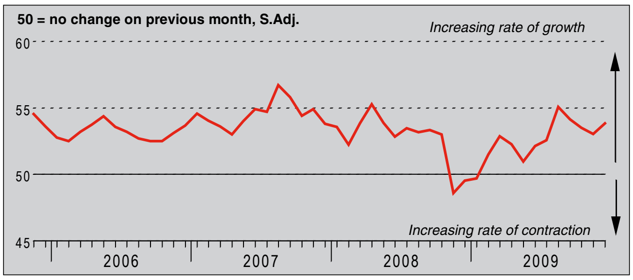


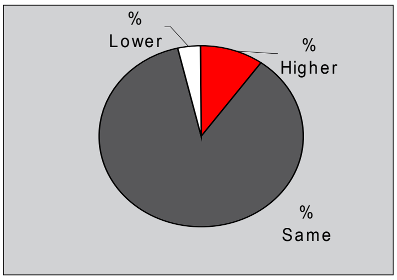


Latest data signalled that volumes of outstanding business in the Chinese service sector rose in December, thereby bringing to an end a period of decline that had lasted for twenty-nine months. Even so, the accumulation of backlogs was only marginal, with the majority of respondents reporting that unfinished business levels remained unchanged since November. Those panellists that reported a rise in work-in-hand (but not yet completed) widely attributed this to continued 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).

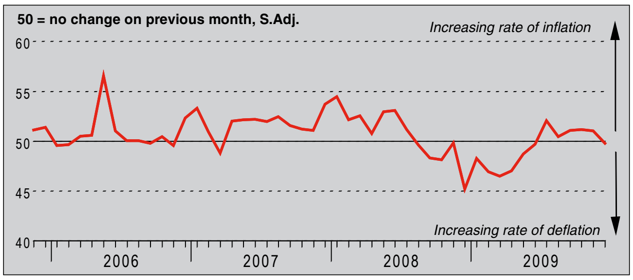


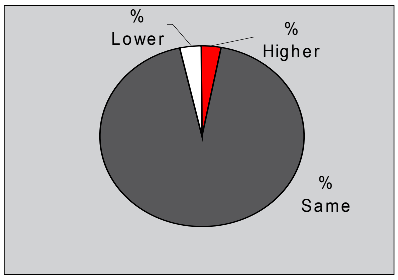


Employment in the Chinese service sector rose for the eleventh consecutive month in December. Exactly 10% of respondents reported adding to their workforce numbers from the month before, versus only 4% that signalled a reduction. The rate at which firms increased their staffing levels was solid and the fastest in three months. Service providers often mentioned that job creation reflected greater inflows of new work. Graduate recruitment schemes and a positive outlook for demand were also cited by a number of panellists.

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.

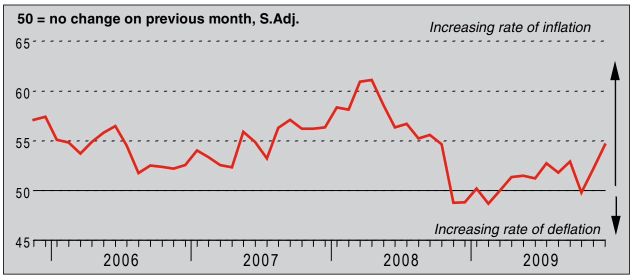


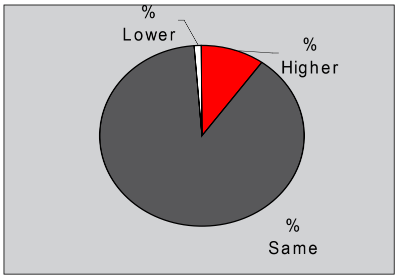


December data signalled that prices charged by Chinese service providers were reduced for the first time in six months. However, the rate of decline was only fractional, with the vast majority reporting that their charges were unchanged on the month. Where firms reported a reduction in output prices, many attributed this to policies aimed at attracting new business amid increased competition. Those companies that signalled a rise in service charges frequently linked this to higher prices for raw materials.

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.

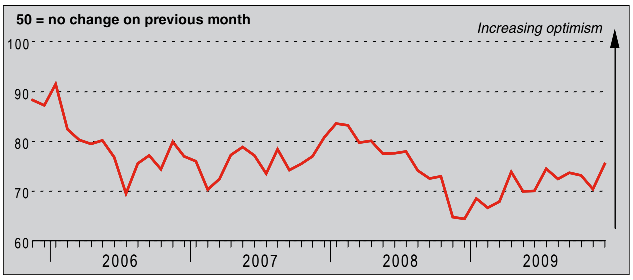


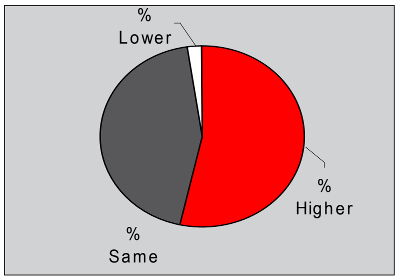


Average input costs faced by Chinese service providers rose again in December, extending the current period of growth to two months. The rate of inflation was solid, accelerating to the most marked since October 2008. Exactly 10% of firms monitored by the survey reported a rise in average cost burdens from a month earlier, versus only 1% that signalled a reduction. Prices paid for copper, electricity and oil were all reported to have risen since November.

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?





Chinese service providers remained confident about the one-year outlook for business activity in December, with more than 53% anticipating activity levels to be higher in twelve months' time. The degree of optimism was the most pronounced since July 2008, albeit slightly below the historical average for the series. Survey participants commented that new product developments, business expansion plans and buoyant economic prospects had supported positive sentiment in December.

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