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## HSBC China Services PMI

Business activity in the Chinese service sector rose markedly at the start of 2010.

### Key findings:

- Activity growth supported by greater inflows of new business.
- Backlogs accumulated at fastest rate in the survey history.
- Future expectations strongest in eighteen months.

The headline seasonally adjusted HSBC Business Activity Index posted 56.8 in January, down slightly from 57.2 one month previously, pointing to a marked rise in services activity at the beginning of 2010. This contrasted with lacklustre growth seen at the start of 2009, following the slowdown seen in the aftermath of the global financial crisis. Where a rise in business activity was signalled, Chinese service providers generally attributed this to further gains in new business. Some companies also cited favourable market conditions as having led activity levels higher.

January data signalled that incoming new business taken by Chinese service providers rose again in January, increasing at a steep rate that was unchanged on the month. Those respondents that reported an increase in new orders often linked this to firmer domestic demand. There were also reports that improving economic conditions had encouraged client spending.

Levels of outstanding work at Chinese service providers rose for the second successive month in January, mainly reflecting substantial new business growth. Although only modest, the accumulation of backlogs was the fastest since the inception of the series in November 2005.

Staffing levels in the Chinese service sector continued to rise in January. The rate at which firms added to their workforce numbers was solid, and the fastest in four months. Evidence provided by the survey panel suggested that companies hired additional employees in line with greater inflows of new work. Business expansion plans and graduate recruitment also

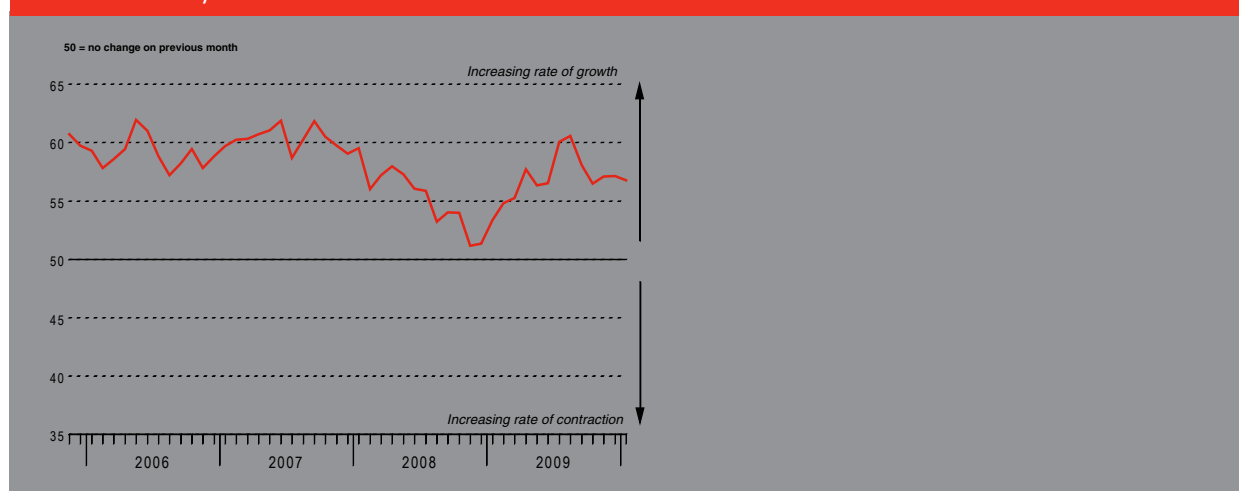
supported employment growth in the latest survey period. Headcounts have now increased for twelve months in succession.

Average input costs faced by Chinese service sector firms rose for the third month running in January. Despite easing from December's fourteen-month high, the rate of inflation remained solid and faster than the historical average for the series. Prices paid for raw materials were reported to have risen on the month, while panellists also noted that labour-related costs were higher than one month previously.

Output prices set by Chinese service providers rose in January following a slight fall in the previous month. Where an increase in service charges was signalled, this was commonly linked by panellists to rising input costs. Firmer client demand also enabled some firms to raise their charges on the month. Output price inflation has now been signalled in six of the past seven months.

Chinese service providers remained confident about the one-year outlook for business activity in January. The degree of optimism was considerable, and the most marked in eighteen months. Of those firms that expect activity levels to have risen in twelve months' time, many attributed this to expectations that domestic demand will remain strong in the coming year. New product developments, business expansion plans and improving economic conditions were also cited as key factors supporting positive sentiment at the start of 2010.

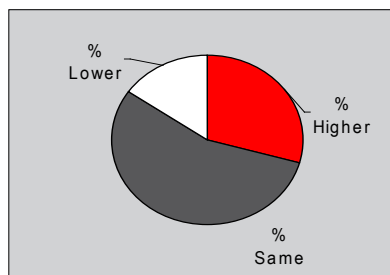
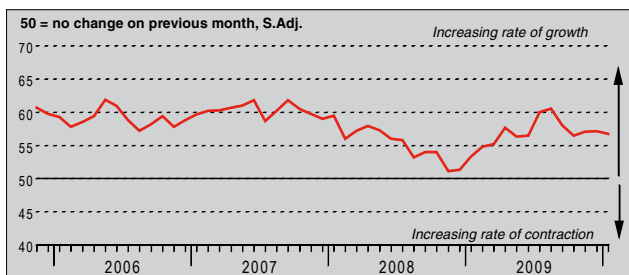
### Business Activity Index



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

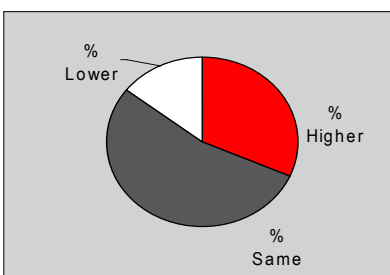
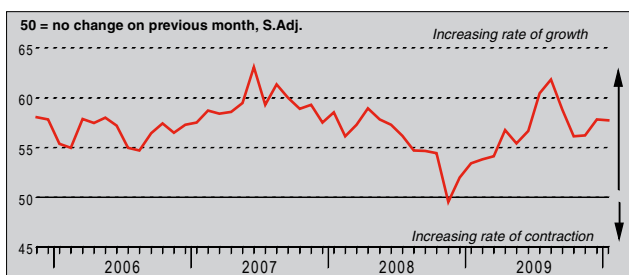
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity in the Chinese service sector continued to rise in January, with more than 29% of panellists reporting an increase from one month previously. Despite easing to the slowest in three months, the rate of expansion remained marked, but slower than the historical average for the series. Where a rise in services output was signalled, respondents often linked this to further gains in new business. Activity growth has been registered throughout the survey history.

### New Business Index

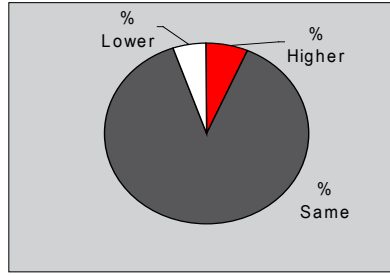
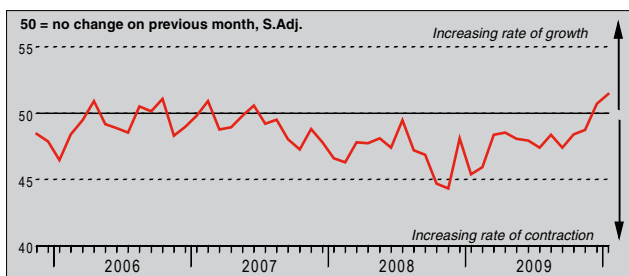
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Levels of new business received by firms operating in the Chinese service sector rose again in January, increasing at a substantial rate that was unchanged on the month. Anecdotal evidence suggested that rising sales primarily reflected firmer demand from domestic sources. New product launches, business expansion plans, promotional activities and favourable market conditions were also cited as having had a positive impact upon customers' spending decisions.

### Outstanding Business Index

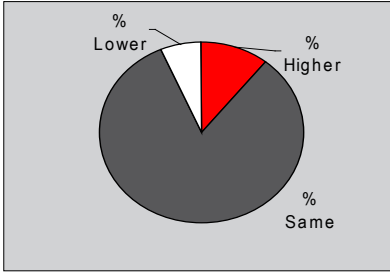
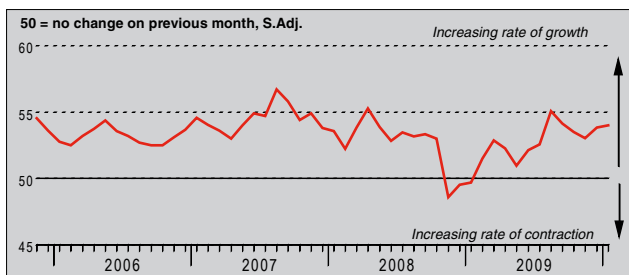
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business growth was maintained in January, thereby extending the current period of rising backlogs to two months. Prior to this sequence of expansion, volumes of work-in-hand at Chinese service providers had fallen for twenty-nine consecutive months. Although only modest, the rate at which backlogs were accumulated was the fastest since the start of the series in November 2005. Those respondents that reported an increase in unfinished business frequently linked this to robust new business growth.

### Employment Index

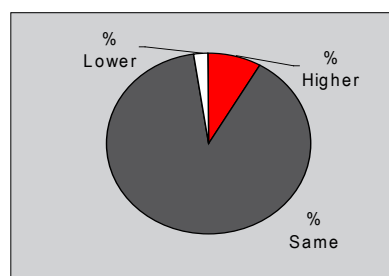
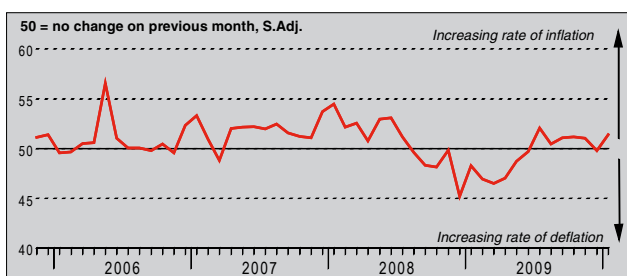
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The seasonally adjusted Employment Index remained above the neutral level of 50.0 in January, pointing to a further expansion of services employment in China. The rate at which companies added to their workforce numbers was solid, accelerating to the fastest in four months. Of those respondents that reported a rise in staffing levels (almost 11%), many linked this to greater inflows of new business. Some panellists also mentioned business expansion plans.

## Prices Charged Index

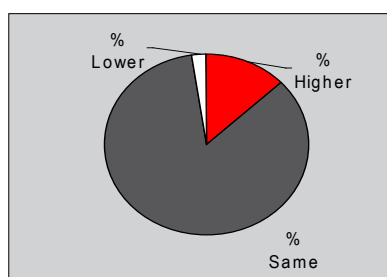
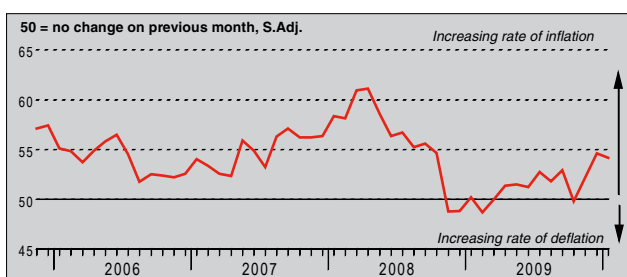
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Prices charged by Chinese service providers rose moderately in January following a marginal fall in the previous month. Approximately 8% of firms reported a rise in output charges from a month ago, versus only 2% that signalled a decrease. Output price inflation has now been registered in six of the past seven months. Where firms reported an increase in charges, this was commonly attributed to rising input costs. Anecdotal evidence also suggested that firmer client demand had enabled firms to raise their output prices on the month.

## Input Prices Index

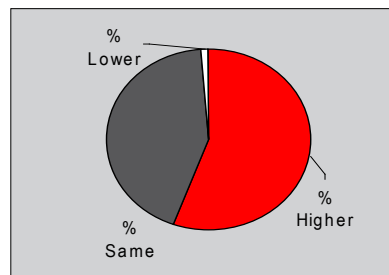
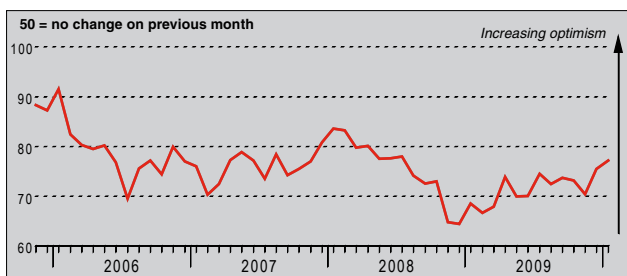
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Despite falling from December's fourteen-month high, the seasonally adjusted Input Prices Index remained at a level indicative of a solid rise in average cost burdens faced by Chinese service providers. Input price inflation has now been registered for three successive months. Survey participants suggested that rising input costs primarily reflected increased raw material prices, while there was also some mention of higher labour-related costs.

## 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 activity in January. The Business Expectations Index rose to an eighteen-month high, pointing to a substantial degree of optimism that was stronger than the series average. Almost 56% of respondents expect overall activity levels to be higher in twelve months' time, versus only 1% that anticipate a reduction. Positive sentiment was supported by new product developments, improving economic conditions and expectations that new business growth will remain strong in 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

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