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## HSBC China Services PMI

Business activity continued to rise markedly in February. Input price inflation the fastest since May 2008.

### Key findings:

- Output and new business rose further in February.
- Input price inflation accelerated.
- Firms remained highly optimistic about the one-year outlook for activity.

After accounting for seasonal variation, the headline HSBC Business Activity Index posted 56.7 in February, down slightly from 56.8 in the previous month, and pointing to a further rise in business activity in the Chinese service sector. The rate of expansion was marked, and broadly in line with that seen since the first month of Q4 2009. Those respondents that reported a rise in services output widely attributed growth to greater inflows of new business. Some firms also mentioned favourable trading conditions.

The level of new business taken by Chinese service providers rose again in February, extending the current period of expansion to fifteen months. Despite easing to the slowest in three months, the rate of expansion in new work was still marked. Evidence provided by the survey panel suggested that new business growth mainly reflected firmer client demand. There were also reports of new product developments and promotional activities.

Outstanding business fell in February following two successive months of expansion. However, the pace at which backlogs were reduced was only fractional. Although new business growth was marked, panellists generally commented that they had sufficient resources to deal with current workloads.

February data signalled that employment growth was maintained for the thirteenth month in succession. The rate at which firms added to their employee numbers was solid, and broadly in line with the historical average for the series. Service providers

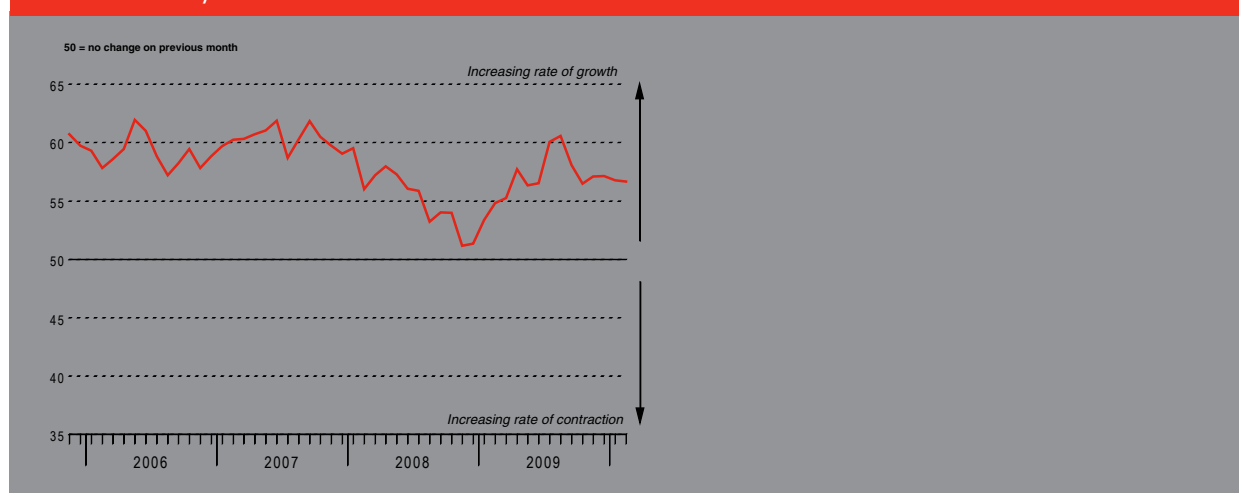
reported that business expansion plans and further gains in new work had led staffing levels higher in February.

Data signalled that output prices set by Chinese service providers continued to rise in February, increasing at the most marked rate since June 2008. Anecdotal evidence suggested that stronger market demand had enabled a number of firms to raise their output charges on the month. Meanwhile, there were also reports that companies had increased their tariffs as a result of rising input costs. Output price inflation has now been signalled in seven of the past eight months.

Average operating costs at Chinese service providers rose in February, largely reflecting rising prices for a range of raw materials. Higher salary costs were also cited by panellists as a key conduit for inflation. The rate of inflation was faster than the series average and the most pronounced since May 2008. Rising cost burdens have now been signalled in each of the past four months.

February data signalled that Chinese service providers expect business activity to be higher in twelve months' time. Despite easing from January's eighteen-month high, the degree of optimism remained considerable. Respondents widely attributed positive sentiment to expectations that demand conditions will continue to improve in 2010. Firmer pricing power, business expansion plans and buoyant economic prospects were also cited as having supported business confidence. Sentiment has remained positive throughout the series history.

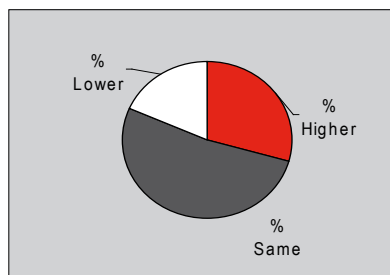
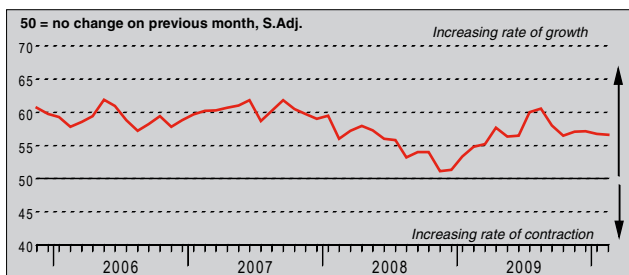
### Business Activity Index



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

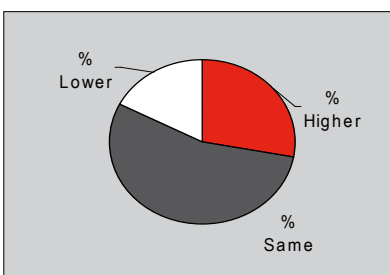
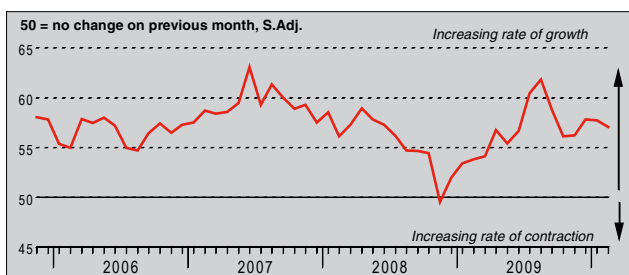
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index remained above the neutral level of 50.0 in February, pointing to a further expansion of business activity in the Chinese services economy. Although considerable, the rate of expansion was still slower than the historical average for the series. Where a rise in services activity was signalled, panellists widely attributed growth to greater inflows of new business. Favourable trading conditions and widespread optimism about the health of the wider Chinese economy also led output higher on the month.

### New Business Index

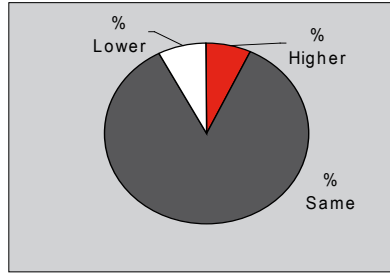
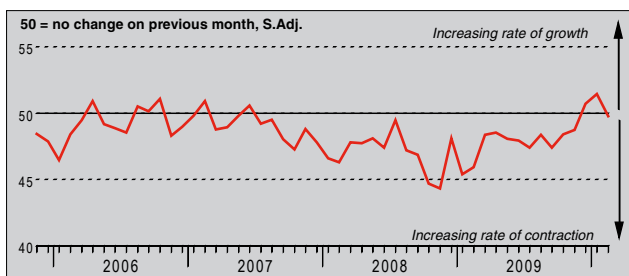
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The level of new business taken by Chinese service providers increased in February, with around 28% of panel members reporting a rise from the preceding month. Despite easing to the slowest in three months, the rate of expansion was still marked. Sales levels have risen throughout most of the series history, with November 2008 the only exception. Evidence provided by the survey panel generally attributed gains in new work to firmer client demand. New product launches and promotional activities were also cited as having supported new business growth.

### Outstanding Business Index

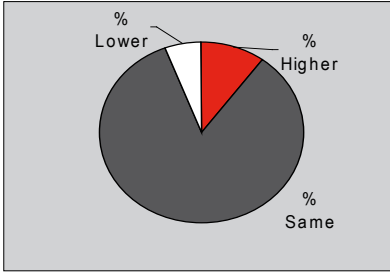
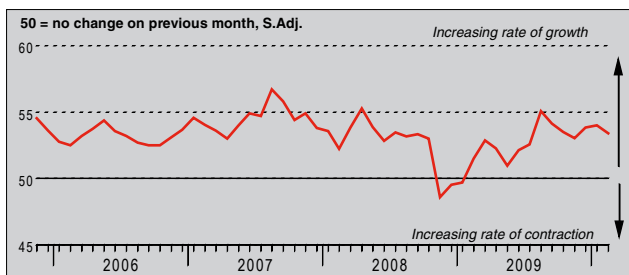
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Adjusting for seasonal factors, the Outstanding Business Index signalled that backlogs of work fell in February following two successive months of accumulation. However, the rate at which firms depleted work-in-hand (but not yet completed) was only slight, with the vast majority (almost 85%) of companies reporting no change since January. Although new business continued to rise markedly, firms widely reported that they had sufficient resources to complete existing workloads.

### Employment Index

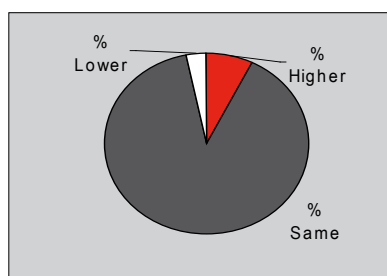
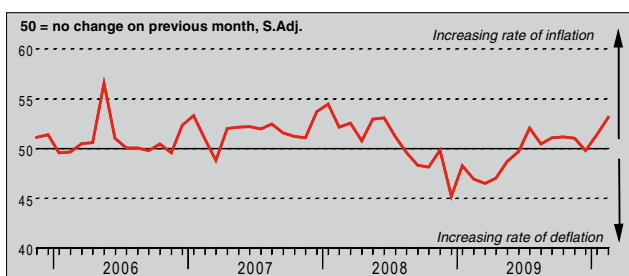
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment rose for the thirteenth month running in February. The rate at which Chinese service providers added to their employee numbers was solid, and broadly in line with the historical series average. Approximately 10% of survey participants reported a rise in staffing levels since January, which they generally attributed to further gains in new business. Company expansion plans were also cited as having supported employment growth in February.

## Prices Charged Index

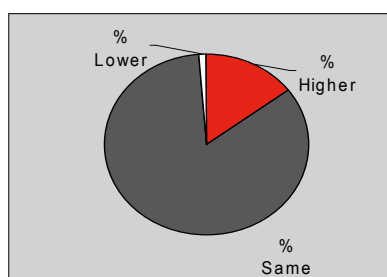
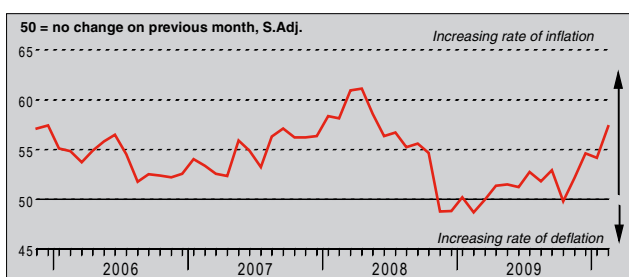
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output prices set by Chinese service providers increased for the second month running in February. The seasonally adjusted Prices Charged Index rose to its highest level since June 2008, pointing to a solid rate of output price inflation that was faster than the series average. Where an increase in service charges was signalled, firms often linked this to rising input costs. Firmer client demand also enabled a number of service providers to raise their charges on the month.

## Input Prices Index

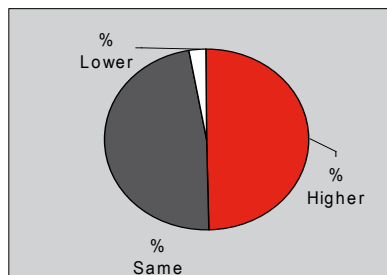
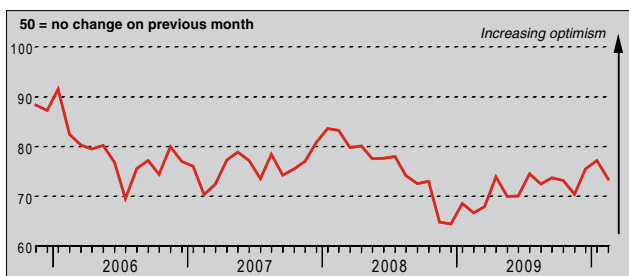
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The seasonally adjusted Input Prices Index remained above the neutral level of 50.0 for the fourth successive month in February, signalling a further rise in average cost burdens faced by Chinese service providers. The rate of input price inflation was marked and the fastest since May 2008. Rising raw material prices and increased salary costs were cited by panellists as having contributed to inflationary pressure. Some firms also mentioned that input costs had risen due to increased expenditure on capital goods.

## 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?



February data signalled that firms remained highly optimistic about the one-year outlook for business activity in the Chinese service sector. Almost half of the survey panel indicated that they expect activity to be higher in twelve months' time, versus only 3% that forecast a reduction. Despite easing from January's eighteen-month high, the degree of optimism remained considerable. Positive sentiment was linked by firms to business expansion plans and improved prospects for demand and the wider Chinese economy.

## 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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