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HSBC China Services PMI

Business activity continued to rise strongly in April.

Key findings:

- Substantial increase in business activity signalled.
- New business growth fastest in eight months.
- Series-record rise in services employment.

After accounting for seasonal trends, the headline HSBC Business Activity Index posted 58.5 in April. Although down slightly from 58.7 in the previous month, it still pointed to a substantial rise in business activity in the Chinese service sector. Those companies that reported a rise in services output generally attributed growth to continued gains in new business, while there were also reports of improved trading conditions. Activity growth has been registered throughout the series history.

The level of new business taken by Chinese service providers increased again in April, extending the current period of growth to seventeen months. The rate of expansion in new work was substantial, having accelerated to the most marked in eight months. Survey respondents reported that new business growth reflected greater market demand and, in some cases, the success of promotional activities. Some panel members also mentioned that new product launches had encouraged client spending.

April data signalled that outstanding business levels in the Chinese service sector rose for the first time since January. Although only modest, the rate of increase was the second-fastest since February 2007. Anecdotal evidence suggested that the accumulation of backlogs primarily reflected higher intakes of new business.

Staffing levels in the Chinese service sector increased for the fifteenth successive month in April. The pace at which firms added to their staff numbers was marked, and the fastest since

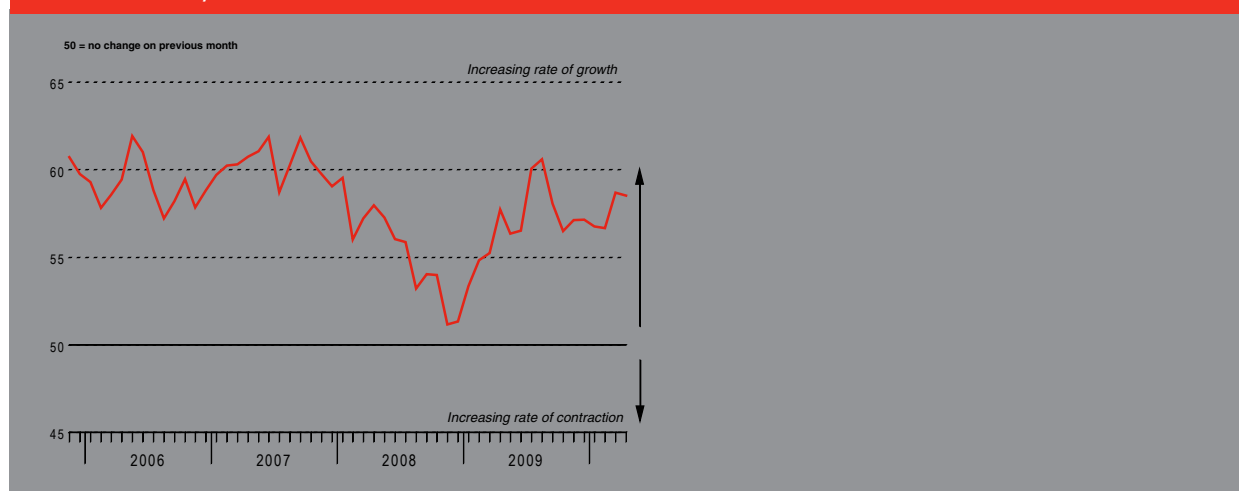
the start of the series in November 2005. According to survey respondents, employment growth reflected further gains in new work. A number of service providers also mentioned business expansion plans.

Average input costs faced by Chinese service providers rose for the sixth successive month in April, increasing at a marked rate that was slightly faster than in the previous month. Of those companies that reported an increase in costs, many linked this to rising raw material prices. Higher labour-related costs were also cited by a number of panellists.

Output prices set by Chinese service sector companies increased for the fourth successive month during April. Although only modest, the rate of inflation was the second-fastest since July 2009. In many cases, companies reported that increased input costs had placed upward pressure on charges. There were also reports that rising client demand had strengthened firms' pricing power.

Chinese service providers remained confident about the one-year outlook for business activity in April. Despite easing from March's twenty-month high, the degree of optimism was considerable. Evidence provided by the survey panel suggested that the positive business outlook mainly reflected expectations that client demand will continue to strengthen in the next twelve months. Positive sentiment was also supported by plans for future business expansion, new product launches and buoyant economic prospects.

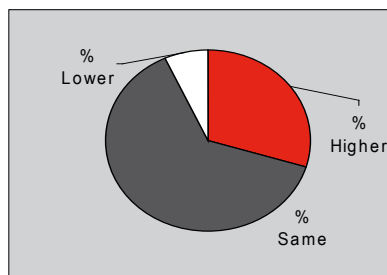
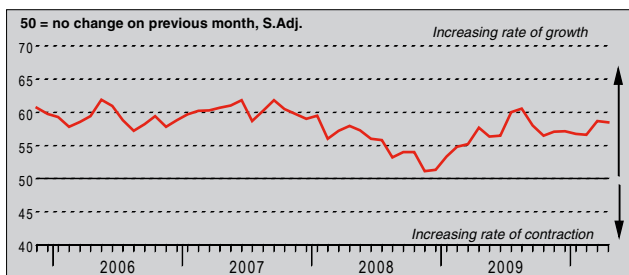
Business Activity Index



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.

Business Activity Index

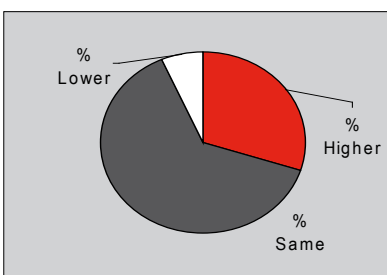
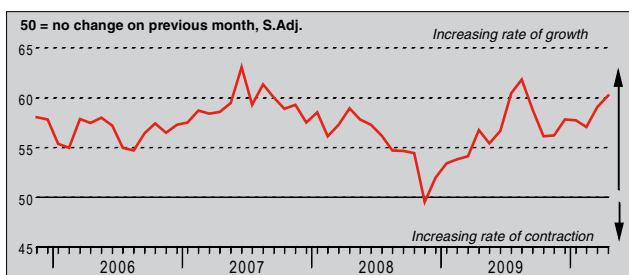
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



According to the latest data, business activity in the Chinese service sector continued to rise in April, with almost 30% of the survey panel reporting an increase since March. This compared with only 7% that signalled a decline. Growth of services output was substantial, and the second-fastest since August 2009. Where a rise in business activity was signalled, this was commonly linked by panellists to rising levels of new business. There were also reports of favourable trading conditions.

New Business Index

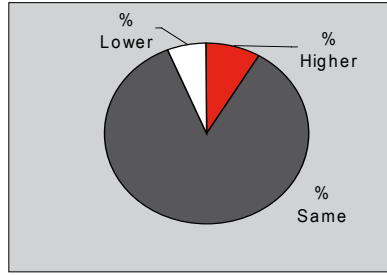
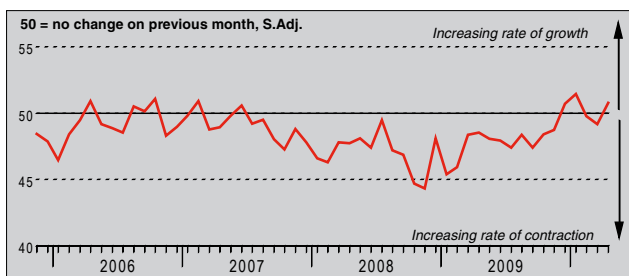
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index rose to an eight-month high in April, pointing to a substantial rise in new business taken by companies operating in the Chinese service sector. Around 30% of panellists reported a rise in new work since March, which they generally attributed to stronger market demand. New product developments and, in some cases, the success of promotional activities were also reported as having led client spending higher. New business growth has now been signalled for seventeen months in succession.

Outstanding Business Index

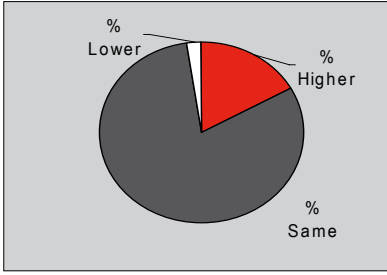
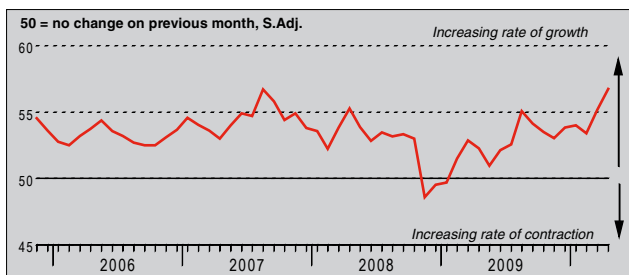
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



After accounting for seasonal trends, the Outstanding Business Index rose above the neutral level of 50.0 in April, signalling the first rise in work-in-hand (but not yet completed) for three months. However, the rate of expansion was only slight, with the vast majority of panellists reporting no difference in unfinished business levels from a month ago. Survey respondents widely commented that resources had been assigned to meet greater inflows of new business instead of completing existing workloads.

Employment Index

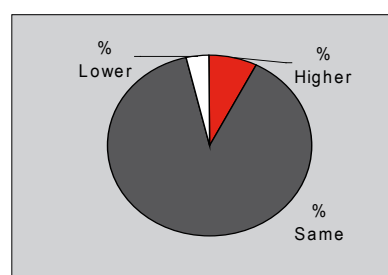
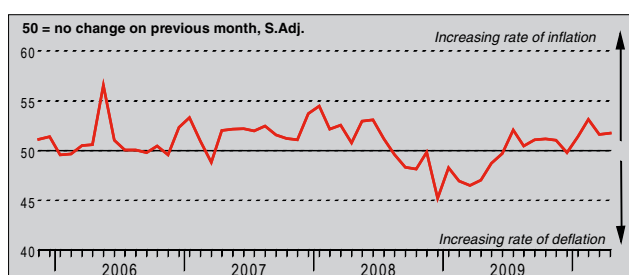
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment levels in the Chinese service sector rose again in April, extending the current period of job creation to fifteen months. The pace at which firms added to their workforce numbers was marked, and the fastest since the inception of the series in November 2005. Of those service providers that reported an increase in staffing levels since March (almost 17%), many attributed this to the need to expand capacity in response to higher intakes of new business. Some respondents also mentioned company expansion plans.

Prices Charged Index

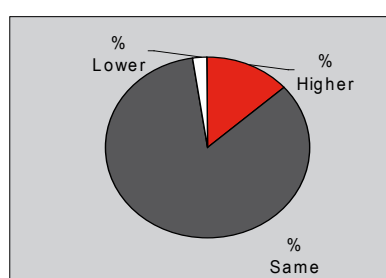
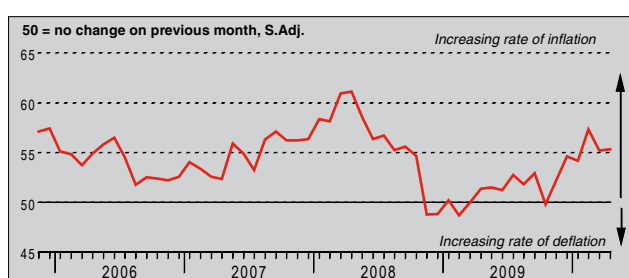
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



In line with the trend seen in 2010-to-date, output prices set by Chinese service providers rose in April. Although only modest, the rate of inflation was the second-fastest since July 2009 and stronger than the long-run series average. Almost 8% of the survey panel reported an increase in prices charged from the previous month, versus 4% that indicated a decline. Higher input costs was the principal reason given by survey respondents for the latest rise in service charges.

Input Prices Index

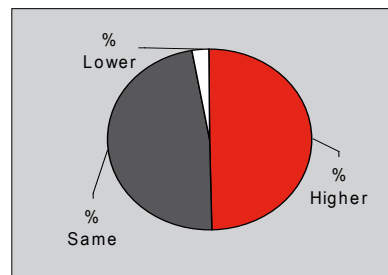
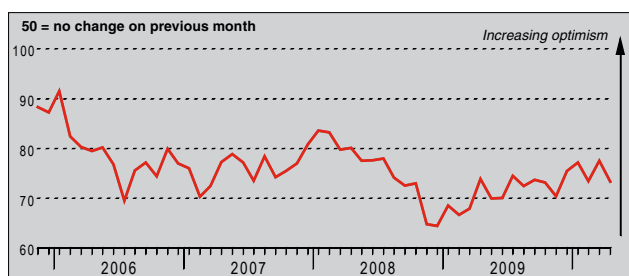
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Latest data signalled that average input costs faced by Chinese service providers rose for the sixth successive month in April, with almost 14% of firms monitored by the survey reporting an increase since March. This compared with only 2% that reported a decline. The rate of input price inflation was solid, and slightly faster than in the previous month. Survey respondents suggested that rising purchase costs 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?



The Business Expectations Index signalled that Chinese service providers remained confident about the one-year outlook for activity in April, as has been the case since the series began in November 2005. Despite easing since March, the degree of optimism was considerable. Respondents widely commented that positive sentiment reflected expectations of further gains in new business. There were also some reports that firms expect to realise the commercial benefits of new product launches and business expansion plans in the next twelve months.

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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