HSBC Purchasing Managers' Index 2010

compiled by markit

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HSBC China Services PMI

Growth of activity in Chinese service sector remained strong in May, despite easing to twelve-month low.

Key findings:

- Activity and new business both rose at slowest rates in twelve months.
- Job creation remained marked.
- Slowest rise in average input costs since November 2009.

After accounting for seasonal variation, the headline HSBC Business Activity Index posted 56.4 in May, down from 58.5 in the previous month, and pointing to a further rise in business activity in the Chinese service sector. Nonetheless, the pace of expansion was the slowest in twelve months, suggesting that activity growth continued to lose momentum in the latest survey period. Those respondents that reported a rise in services output often linked growth to greater inflows of new business.

The volume of new business received by firms operating in the Chinese service sector rose again in May, extending the current period of growth to eighteen months. Although still marked, the rate of expansion was the slowest for a year. Where an increase in new business was signalled, respondents widely attributed growth to firmer market demand. There were also reports that an improved outlook for the wider Chinese economy had encouraged customers to increase their nonessential expenditure.

Outstanding business at Chinese service providers fell in May, following a slight rise in the previous month. Although only modest, the rate at which backlogs were depleted was the fastest in eight months. Of those firms that reported a reduction in work-in-hand, the majority linked this to lower-than-expected sales. Backlogs of work have now fallen in three of the past four months.

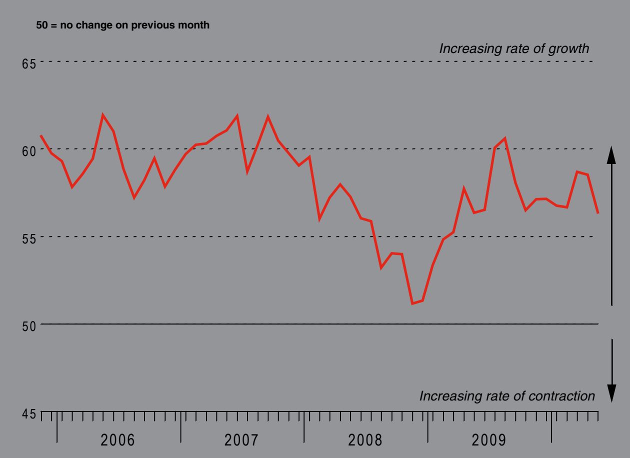
Services employment in China continued to rise in May, mainly reflecting higher intakes of new business. Panellists also reported recruiting additional employees for work on new product lines and company expansion plans. Despite easing since April, the rate at which firms added to their staff numbers was marked, and the second-fastest since September 2007. Employment growth has now been maintained for sixteen months in succession.

Average input costs faced by Chinese service providers rose for the seventh successive month in May. However, the rate of inflation was the slowest since November 2009, and weaker than the long-run series average. Panellists mentioned that rising demand for raw materials, such as food and oil, continued to generate inflationary pressure. Some respondents also mentioned higher labour-related costs.

According to the latest data, output prices set by Chinese service providers continued to increase in May, rising at the fastest rate in three months. Anecdotal evidence suggested that firmer client demand had enabled a number of companies to raise their charges on the month. Meanwhile, there were also reports that firms had increased their tariffs as a result of rising input costs.

Business expectations in the Chinese service sector remained buoyant in May. Survey participants reported that confidence was underpinned by future project developments and business expansion plans. However, the degree of optimism was the least marked in six months, with firms taking note of newly imposed government policies. A number of companies noted that government action to cool the real estate sector may affect activity levels in the forthcoming coming year.

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.

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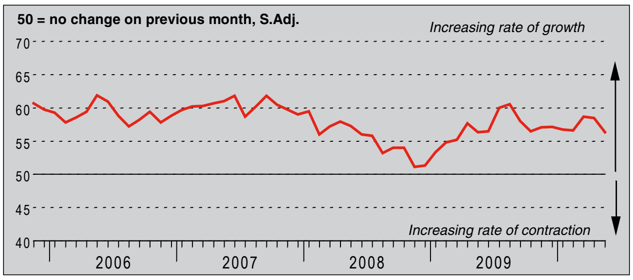
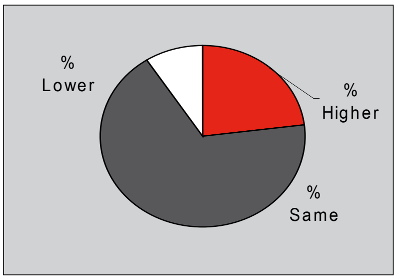
Business Activity Index

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.

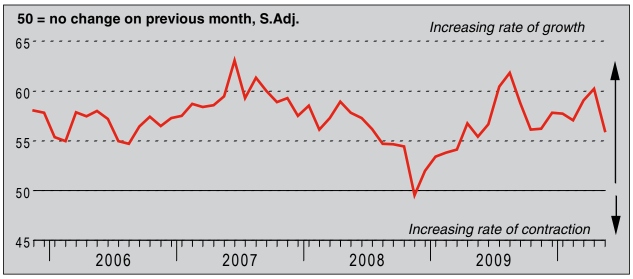


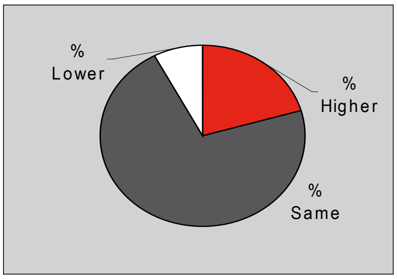


In line with the trend observed since the start of the series in November 2005, the seasonally adjusted Business Activity Index remained above the neutral 50.0 threshold in May, pointing to a further increase in Chinese service sector activity. The rate of expansion was marked, albeit the slowest in twelve months. Approximately 23% of survey participants reported a rise in business activity from a month ago, which they generally attributed to higher intakes of new business.

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.

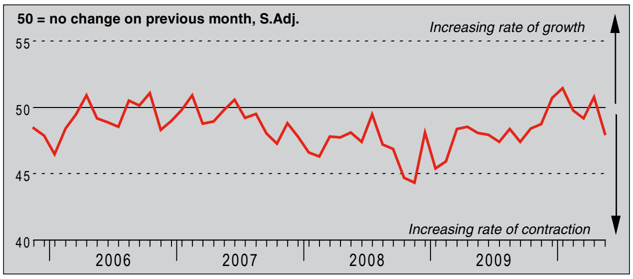


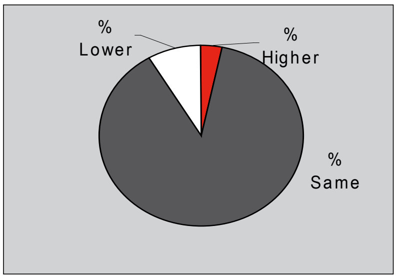


New business growth was signalled for the eighteenth successive month in May, with almost 21% of respondents reporting a rise from the preceding month. This compared to around 8% that signalled a decline. Nonetheless, the pace of expansion was the least marked in twelve months, and slower than the long-run series average. According to respondents, new business growth primarily reflected greater market demand and the success of promotional activities. There were also reports of new product launches.

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.

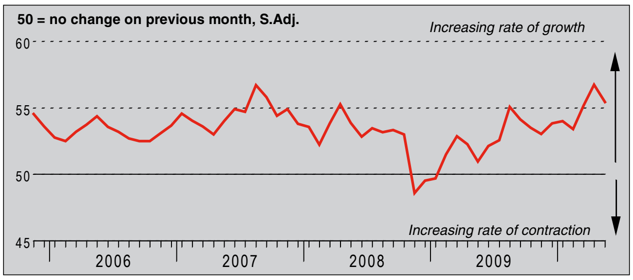


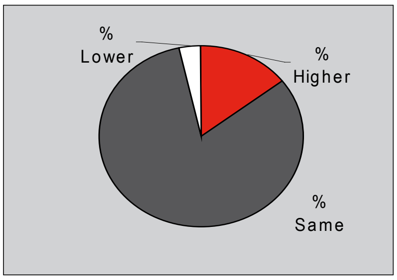


Backlogs of work in the Chinese service sector fell in May, following a slight increase in the previous month. The rate at which work-in-hand (but not yet completed) was depleted was the fastest in eight months, and steeper than the historical series average. Approximately 8% of the survey panel reported a decline in outstanding business from a month ago, versus only 3% that signalled a rise. Those respondents that reported a decline in backlogs often linked this to a slower rise in new business taken by Chinese service providers.

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 again in May, extending the current period of growth to sixteen months. Despite easing from a month ago, the rate of accumulation was the second-fastest since September 2007. Of those firms that reported a rise in staffing levels since April (almost 15%), the majority attributed growth to future product developments and higher intakes of new business. Some panellists also mentioned business expansion plans.

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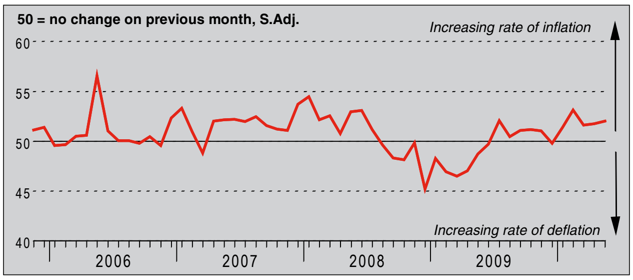
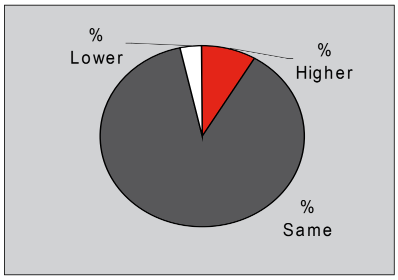
Prices Charged Index

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.

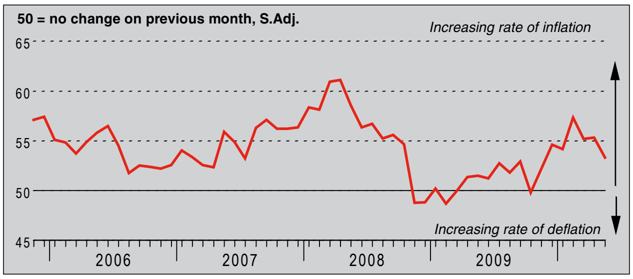


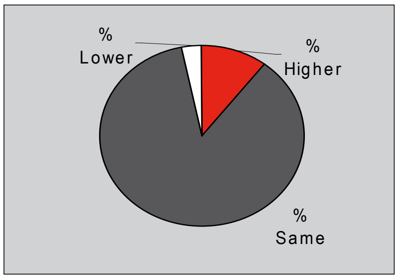


Output prices set by Chinese service providers continued to rise in May, with the seasonally adjusted Prices Charged Index above the neutral 50.0 threshold for the fifth month in succession. Although only modest, the rate of inflation was the second-fastest since July 2009, and steeper than the long-run series average. Evidence provided by the survey panel suggested that output price inflation reflected greater market demand and, in some cases, higher prices paid for a variety of inputs.

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.

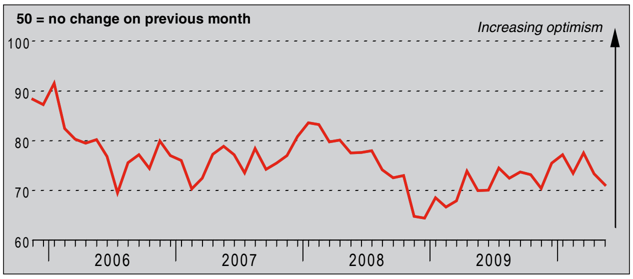


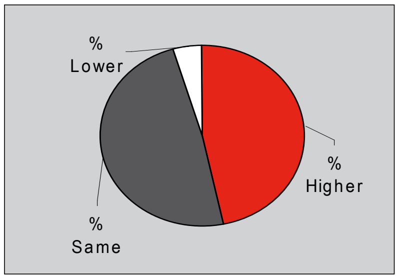


Despite remaining above the neutral 50.0 threshold, the seasonally adjusted Input Prices Index fell to a six-month low in May, pointing to a moderate rise in average input costs faced by Chinese service providers. It was the seventh month running in which respondents reported an increase in the average cost of their purchases. Input price inflation was primarily linked by panellists to higher raw material prices, such as food and oil. There were also reports that personnel costs had risen on the month.

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 were highly confident about the one-year outlook for business activity in May. Almost 47% of respondents expect activity levels to be higher in twelve months' time, compared to only 4% that anticipate a reduction. Panellists commented that new product developments, business expansion plans and buoyant economic prospects had supported the optimistic outlook in May. However, the degree of positive sentiment was the least marked in six months, with some firms reporting that they expect government policies to affect activity growth in the coming year.

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. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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