HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC China Services PMI™

Marked growth of business activity supported by further gains in new work.

Key findings:

- Faster rises in output and new business.
- Job creation signalled for eighteenth month running.
- Future expectations remained positive but below historic average.

After adjusting for seasonal variation, the HSBC Business Activity Index posted 56.3 in July, up from 55.6 in the previous month, pointing to a further rise in business activity in the Chinese service sector. The rate of growth was marked, albeit slower than the long-run series average. Where a rise in service sector activity was signalled, survey participants widely attributed growth to greater inflows of new business. Activity growth has been maintained throughout the history of the series.

The level of new business received by Chinese service providers rose again in July, extending the current period of growth to twenty months. The rate of expansion was marked, and the fastest in three months. According to respondents, new business growth predominantly reflected stronger market demand. There were also reports of new product developments and, in some cases, the success of promotional activities.

Outstanding business in the Chinese service sector fell for the third month running in July, decreasing at a modest rate that was slightly slower than one month previously. Those respondents that reported a decline in unfinished business often linked this to spare capacity at their units. Increased efficiency was also cited as having led work-in-hand (but not yet completed) lower.

July data signalled that staffing levels in the Chinese service sector continued to rise in the latest survey period. The rate at which companies added to their staff numbers was solid, and slightly faster than in June. Employment growth has now been registered for eighteen successive months. Anecdotal evidence suggested that job creation principally reflected higher intakes of new business. Company expansion plans were also cited as having supported employment growth.

Average input costs faced by Chinese service providers rose further in July. The rate of inflation was solid, but slightly slower than the historical series average. Those survey participants that reported an increase in their overall costs generally attributed this to higher labour-related costs. A number of panellists also mentioned higher prices paid for rent and fuel. Input price inflation has now been signalled for nine successive months.

Output prices set by Chinese service providers rose for the seventh month running in July. The rate at which companies raised their charges was only modest, albeit faster than the long-run series average. Where a rise in output charges was signalled, respondents commonly linked this to firmer client demand. Conversely, those firms that signalled a decrease linked price discounting to increased competition for new business.

Data indicated that Chinese service providers were highly optimistic about the one-year outlook for business activity. However, the degree of positive sentiment was the second-lowest in sixteen months. The positive outlook was linked by panellists to expectations of future new business wins.

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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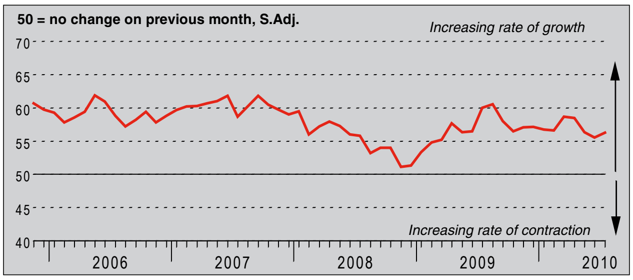
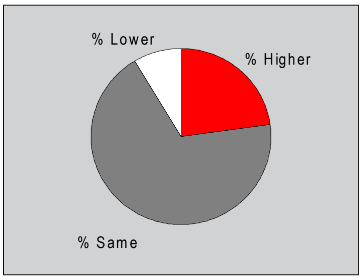
Business Activity Index

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.

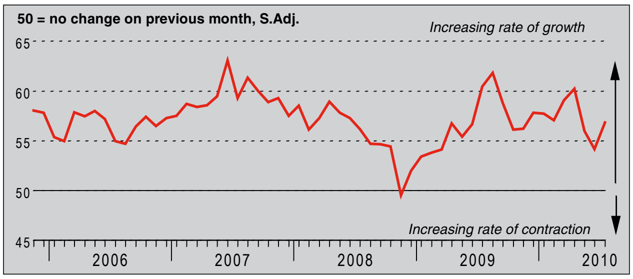


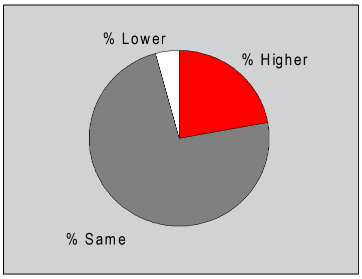


The seasonally adjusted Business Activity Index remained above the neutral level of 50.0 in July, pointing to a further rise in business activity in the Chinese service sector. The rate of growth was marked, and quickened from June's fifteen-month low. Approximately 23% of the survey panel reported an increase in services output since June, which they generally attributed to greater inflows of new business. Activity growth has been signalled 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.

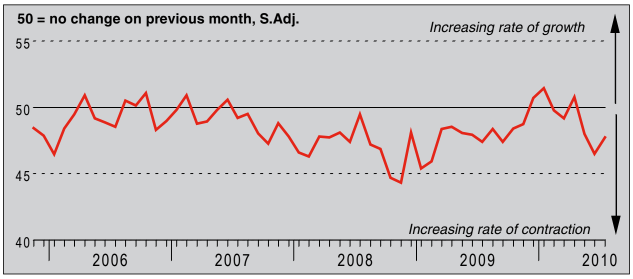


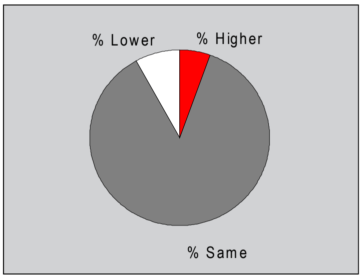


The level of new business taken by Chinese service providers continued to rise in July, with around 22% of the survey panel reporting a rise from the preceding month. This compared to only 4% that indicated a decline. The rate of expansion in new work was marked, and the fastest in three months. However, overall growth was fractionally below the long-run series average. Those respondents that reported a rise in new business often linked growth to firmer client demand. Some panellists also mentioned 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.

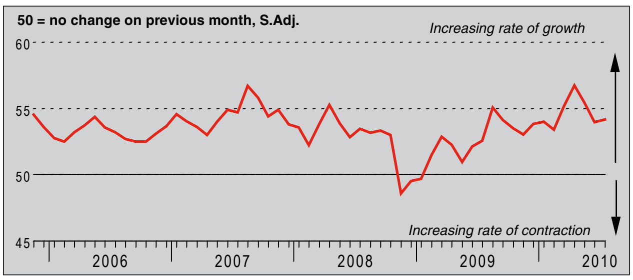


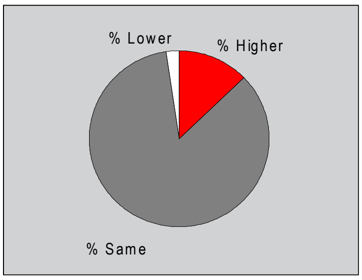


After adjusting for seasonal variation, the Outstanding Business Index posted below the neutral 50.0 threshold for the third successive month in July, signalling a further decline in unfinished business in the Chinese service sector. The rate at which backlogs of work were depleted was modest, but slightly faster than the long-run series average. Evidence provided by the survey panel suggested that reduced work-in-hand (but not yet completed) reflected spare capacity in the sector.

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).

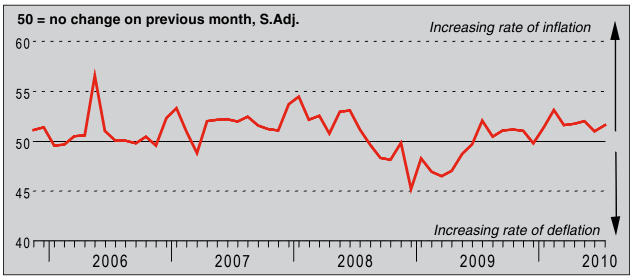


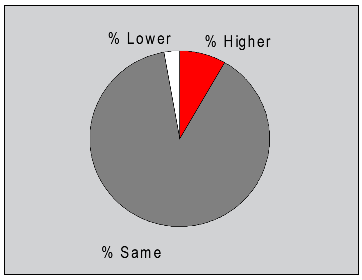


Staffing levels in the Chinese service sector rose again in July, extending the current period of growth to eighteen successive months. Almost 13% of panellists reported a rise in services employment since June, versus only 2% that reported a reduction. The rate at which companies raised their staff numbers was solid, and faster than the long-run series average. Where an increase in employee numbers was signalled, this was predominantly attributed to higher intakes of new work. Employment growth was also supported by new product developments.

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.

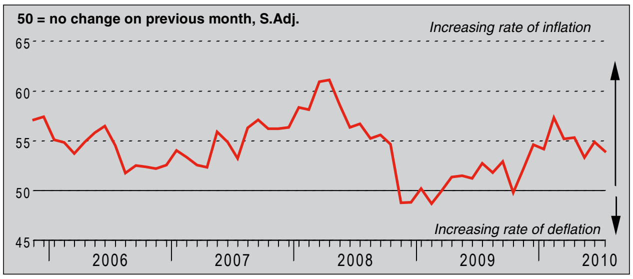


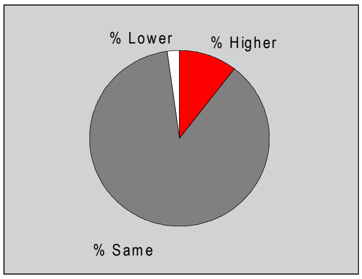


Output prices set by Chinese service providers rose in July, extending the current period of inflation to seven months. Although only modest, the rate at which firms raised their output charges was faster than the historical series average. The vast majority of firms (almost 89%) reported that service charges remained unchanged since June. Where a rise in prices charged was signalled, panellists often linked inflation to firmer client demand. Of those respondents that reported a reduction, most attributed this to strategies aimed at attracting new business.

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.

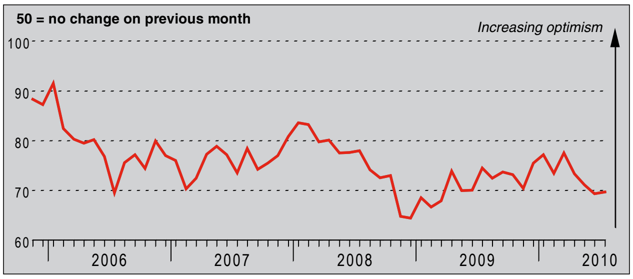


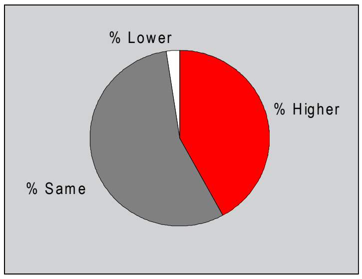


According to the latest data, average input costs faced by Chinese service providers rose again in July, with the seasonally adjusted Input Prices Index at a level indicative of a solid rate of inflation. However, the index dipped below the historical series average. Evidence provided by the survey panel signalled that higher labour-related costs were the key driver of inflation in the latest survey period. There were also a number of reports of increased bonus payments.

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 posted above the neutral level of 50.0 in July, signalling that Chinese service providers expect business activity to be higher in twelve months' time. The degree of optimism was considerable, and slightly higher than in the previous month. Nonetheless, positive sentiment remained lower than the long-run series average. The positive outlook was linked by panellists to expectations of continued gains in new work, business development and company expansion plans.

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.

Warning