HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC China Services PMI™

Activity growth accelerated to four-month high in August, supported by a faster rise in new business.

Key findings:

- Activity and incoming new work both rose substantially in August.
- Solid employment growth signalled.
- Input price inflation quickened to the fastest since May 2008.

The seasonally adjusted headline HSBC Business Activity Index remained above the neutral 50.0 threshold in August, pointing to a further rise in Chinese service sector activity. At 57.6, up from 56.3 in the previous month, the index was at a level indicative of a marked rate of expansion that was the most pronounced since April. Nonetheless, the latest increase was slower than the long-run series average. Where a rise in services output was signalled, panellists widely attributed growth to higher intakes of new business. Some firms also mentioned favourable trading conditions.

The level of new business taken by Chinese service providers rose again in August, extending the current period of growth to twenty-one months. Similar to the trend for output, the rate of new business growth was substantial, and accelerated to the fastest since April. Those respondents that reported a rise in new work often linked this to stronger client demand. There were also reports of new product launches and the success of promotional activities.

Backlogs of work in the Chinese service sector fell further in August, with panellists widely commenting that they had sufficient resources to deal with existing workloads, despite a steep rise in new order intakes. The pace at which backlogs of work were depleted was solid, and the second-fastest since February 2009. Volumes of work-in-hand (but not yet completed) have now fallen for four successive months.

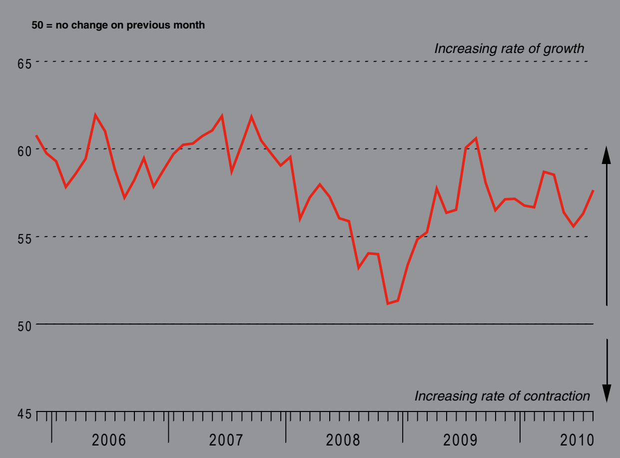
Chinese services employment rose further in August, with the rate of job creation quickening to a three-month high. Evidence provided by the survey panel suggested that employment growth primarily reflected greater inflows of new business. Some respondents also mentioned company expansion plans. Service providers have now added to their employee numbers for nineteen months in succession.

Average input costs faced by Chinese service providers rose markedly in August, with the rate of inflation accelerating to the fastest since May 2008. According to respondents, input price inflation reflected a combination of higher raw material prices and increased labour-related costs. Prices paid for food products, steel and oil were all reported as having increased on the month.

In contrast, prices charged by service sector firms rose only modestly in August, with the vast majority of firms reporting that charges remained unchanged from a month ago. However, the rate at which firms raised their output prices was slightly faster than the long-run 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.

Chinese service providers expect business activity to be higher in twelve months' time, with positive sentiment linked to expectations of stronger new business growth. Despite rising to a three-month high, the degree of optimism was below the long-run series average.

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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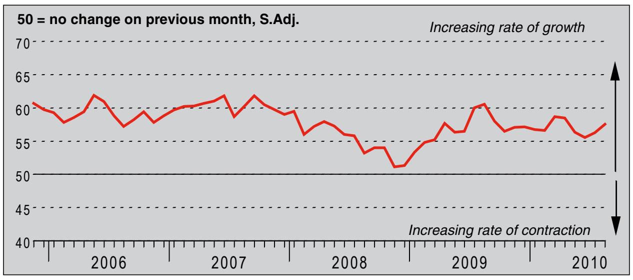
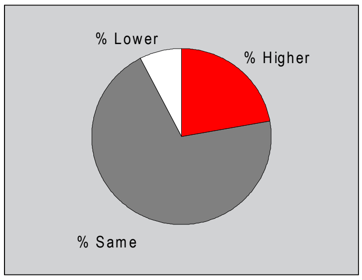
Business Activity Index

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.

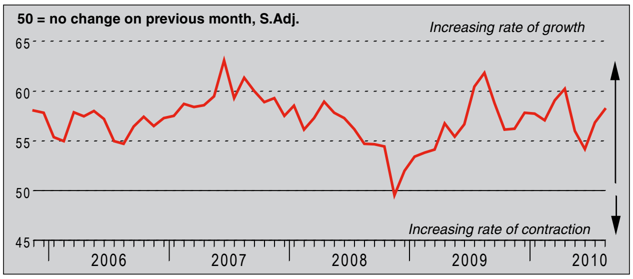


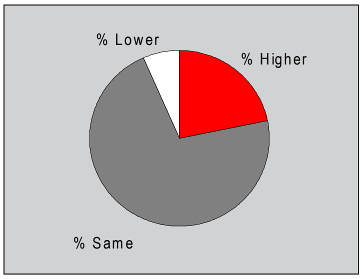


After adjusting for seasonal factors, the Business Activity Index rose to a four-month high in August, pointing to a further increase in Chinese service sector activity. Although substantial, the rate of activity growth was slightly slower than the long-run series average. Approximately 22% of panellists reported a rise in business activity since the preceding month, compared to almost 8% that signalled a decline. Where a rise in service sector output was signalled, this was generally attributed to further gains in 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.

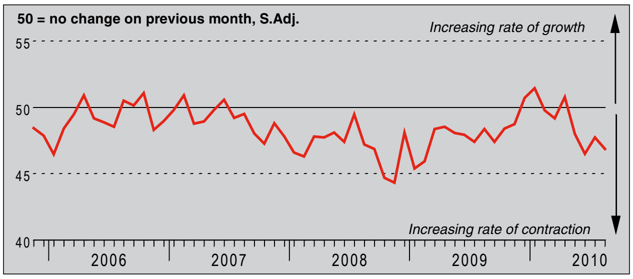


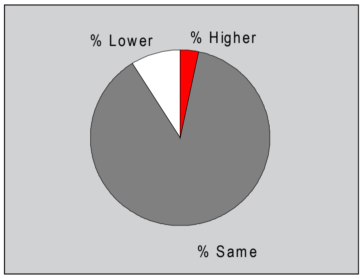


Intakes of new business continued to rise in August, with almost 22% of the survey panel reporting an increase since July. This compared to approximately 7% that signalled a decrease. The rate of expansion was substantial, and accelerated to the fastest in four months. According to survey participants, new business growth primarily reflected stronger client demand. There were also reports of new product launches and the success of promotional campaigns.

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.

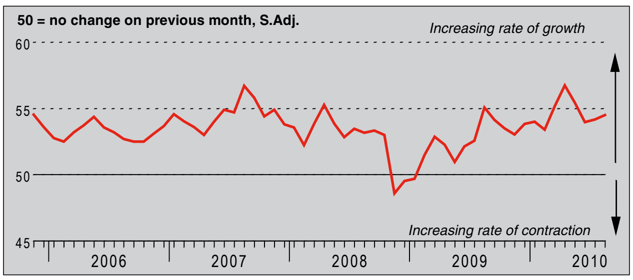


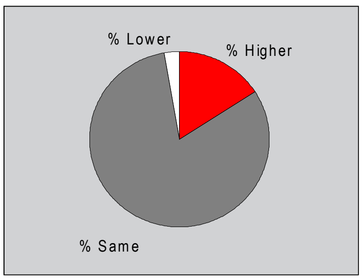


The seasonally adjusted Outstanding Business Index remained below the neutral level of 50.0 in August, pointing to a further reduction of work-in-hand in the Chinese service sector. The rate at which backlogs were depleted was solid, and accelerated to the second-fastest since February 2009. Although new business rose markedly, firms widely reported that they had sufficient resources to complete existing workloads. August marked the fourth successive month in which backlogs have fallen.

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).

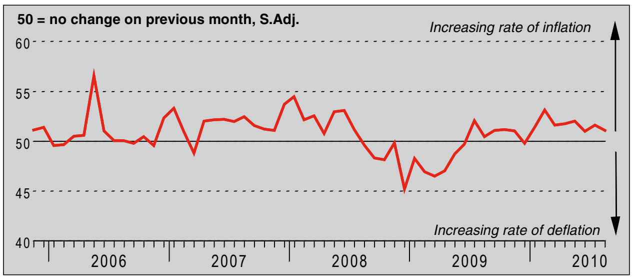


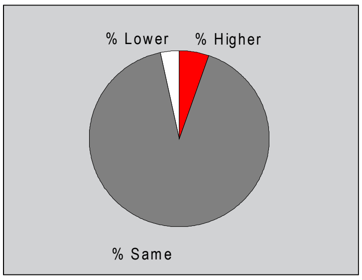


Chinese service sector employment rose in August, extending the current period of expansion to nineteen months. The pace at which firms added to their employee numbers was solid, and the fastest in three months. Almost 16% of respondents reported a rise in staffing levels from a month ago, which they often linked to greater inflows of new business. Employment growth was also supported by company expansion plans and 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.

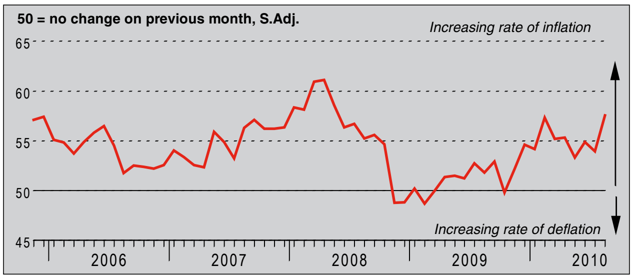


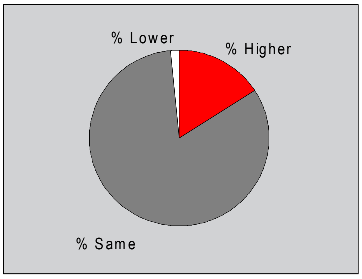


Output prices set by Chinese service providers rose for the eighth month running in August. However, the seasonally adjusted Prices Charged Index was at a level indicative of only a modest rate of output price inflation, with the vast majority of panellists (around 91%) reporting no difference in output charges since July. Where a rise in service sector charges was signalled, this was linked to firmer market demand. Respondents also reported passing on higher input costs to clients.

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.

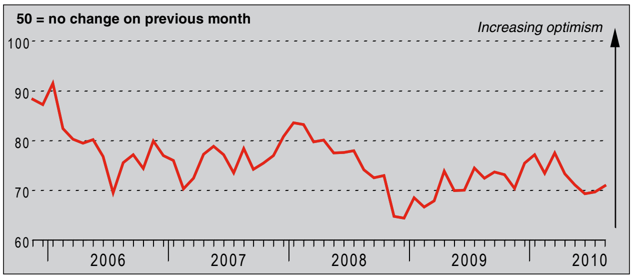


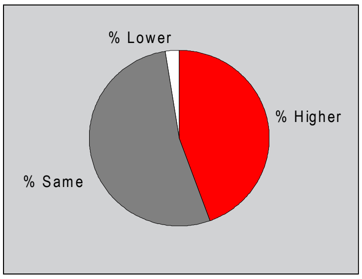


The seasonally adjusted Input Prices Index climbed to a twenty-seven month high in August, pointing to a marked rise in average input costs faced by Chinese service providers. Almost 16% of firms reported a rise in purchase costs from a month ago, versus only 2% that indicated a drop. The faster rate of inflation reflected higher prices paid for a range of raw materials and, in some cases, increased labour-related costs. Food products, oil and steel were all reported to have risen in price since July. Input cost inflation has now been signalled for ten months in succession.

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 August, with approximately 44% of the survey panel expecting overall activity to be higher in twelve months' time. However, the degree of optimism was lower than the historical average of the series. Anecdotal evidence suggested that positive sentiment primarily reflected expectations that new business growth will continue to strengthen in the coming year. Business expansion plans were also mentioned by a number of panellists.

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