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## HSBC China Services PMI™

Chinese service sector activity rose solidly, but rate of expansion eased to slowest in nineteen months.

### Key findings:

- Marked increase in new business.
- Employment growth slowest since November 2009.
- Business confidence remained considerable, but dipped to joint third-lowest in the series history.

After adjusting for seasonal variation, the headline HSBC Business Activity Index remained above the neutral level of 50.0 in September, pointing to a further increase in Chinese service sector activity. Despite dipping to a nineteen-month low of 55.2, the index was at a level indicative of a solid rate of expansion. Activity has increased throughout the entirety of the series history. Where an increase in business activity was signalled, panellists commonly linked growth to greater inflows of new business. There were also reports of favourable trading conditions.

The level of new business received by Chinese service providers rose further in September. Although marked, the rate of expansion was the slowest in three months, and weaker than the long-run series average. New business gains have been recorded continuously since December 2008, when the respective index dipped below the neutral 50.0 threshold for the first and only time in the series history. Anecdotal evidence suggested that new business growth reflected firmer client demand and, in some cases, new product developments. Some panellists also cited the success of promotional activities.

Latest data signalled that backlogs of work in the Chinese service sector fell again in September. This occurred despite a marked rise in new business, suggesting that spare capacity existed at service providers' units. Nonetheless, the rate at which outstanding business fell was only modest, and eased to the slowest in the current five-month period of decline. Furthermore, the latest decrease was broadly similar to the historical average

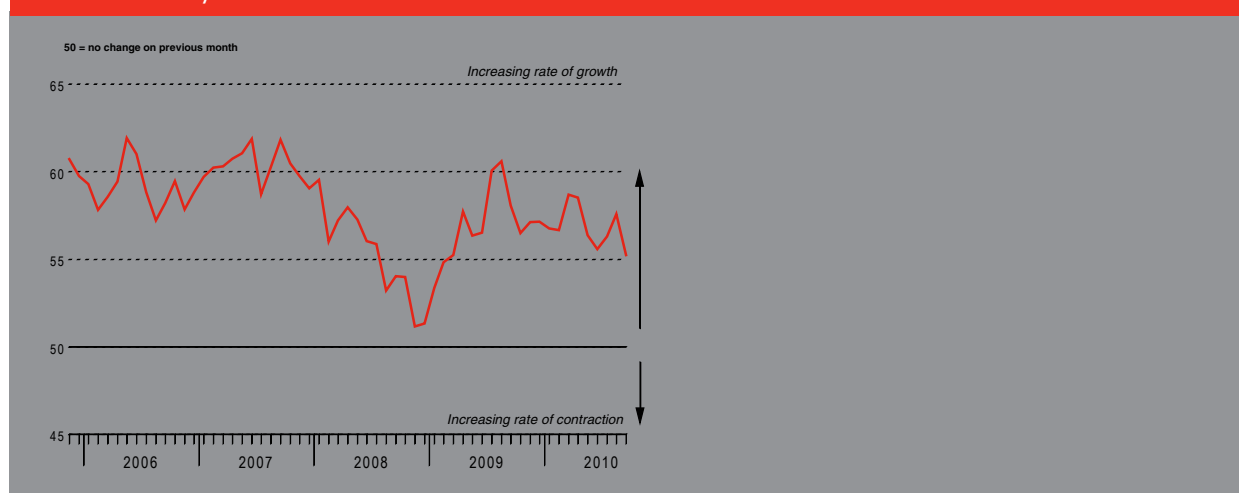
for the series.

Services employment in China continued to rise during the latest survey period. However, the rate at which firms added to their employee numbers eased to the slowest in ten months. Respondents widely commented that employment growth reflected greater intakes of new business. Where a decline in staff numbers was signalled, this was attributed to an increased number of employee resignations.

Average input costs rose for the eleventh successive month in September. However, the rate of input price inflation was moderate, and eased to the slowest in four months. Moreover, the latest increase was slower than the long-run series average. Those respondents that reported a rise in cost burdens attributed this to a combination of higher raw material prices and increased labour-related costs. Subsequently, firms raised their output charges on average in September, extending the current period of higher charges to nine months. Nonetheless, the rate of inflation was only slight, and the least marked in that sequence. Respondents cited increased competition for new business as having restricted their ability to raise charges.

Service providers remained strongly confident about the one-year outlook for business activity, although the degree of optimism was among the lowest in the series history. Expectations of further new business wins, new product launches and confidence in the economic outlook were all cited as key factors supporting positive sentiment.

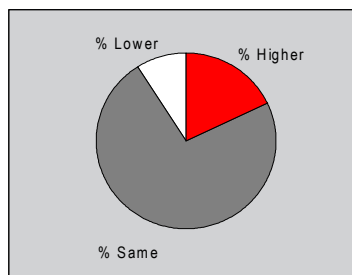
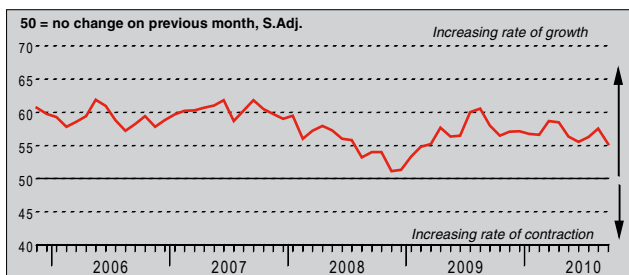
### Business Activity Index



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

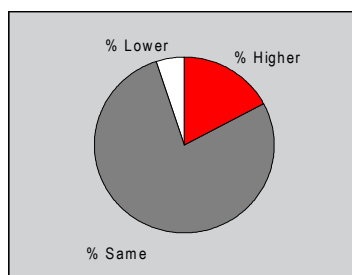
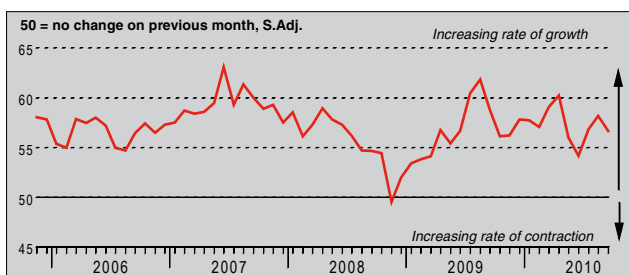
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Continuing the trend observed since the start of the series in November 2005, business activity in the Chinese service sector rose during September. Almost 18% of the survey panel reported an increase since the preceding month. Although solid, the pace of expansion was the weakest since February 2009, and slower than the long-run series average. Evidence provided by the survey panel suggested that activity growth predominantly reflected continued new business wins.

## New Business Index

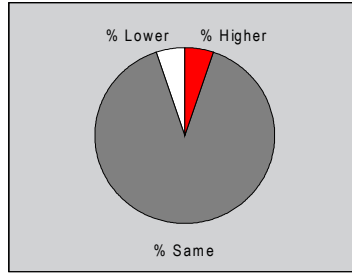
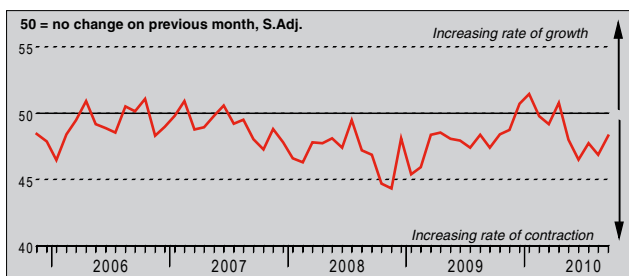
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The level of new business received by Chinese service providers rose again in September. Despite dropping to a three-month low, the seasonally adjusted New Business Index was at a level indicative of a marked rise in new orders. Approximately 17% of the survey panel reported a rise in new work, which the majority attributed to strong market demand. New product launches and the success of promotional activities were also cited as having led to the latest increase in new business.

## Outstanding Business Index

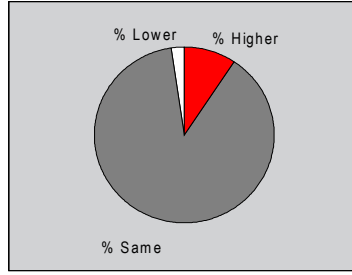
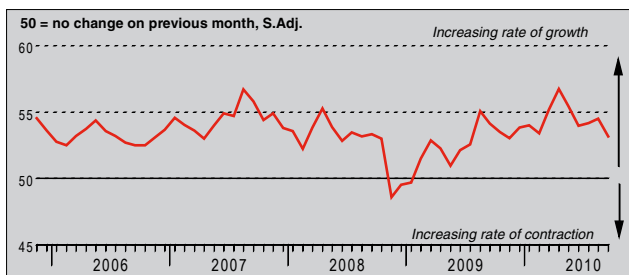
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Despite a marked rise in new orders, Chinese service sector firms continued to reduce their backlogs of work on average in September, suggesting that spare capacity persisted in the sector. However, the rate at which backlogs were depleted was only modest, and the slowest in the current five-month period of decline. Furthermore, the latest decrease was broadly similar to the historical average for the series. The vast majority of panellists (almost 90%) reported that unfinished business remained unchanged since August.

## Employment Index

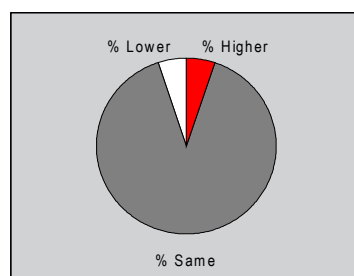
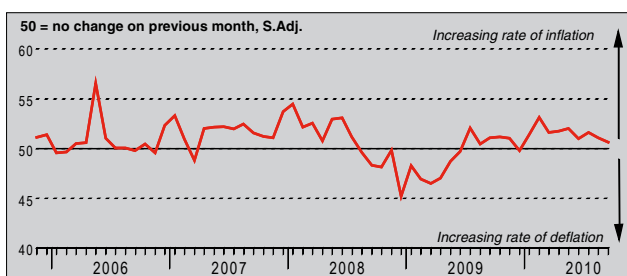
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Services employment in China rose further during September. Approximately 9% of companies reported a rise in headcounts since the preceding month, versus only 2% that indicated a decline. Where an increase in staff numbers was signalled, panellists often linked this to new business wins. Nonetheless, the rate of growth was the slowest since November last year. Respondents reported that this primarily reflected an increased number of employee resignations. Workforce numbers have risen continuously since February 2009.

## Prices Charged Index

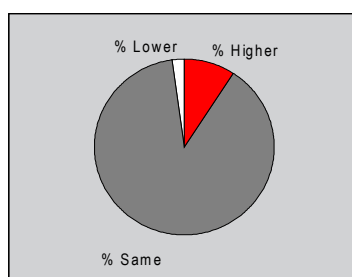
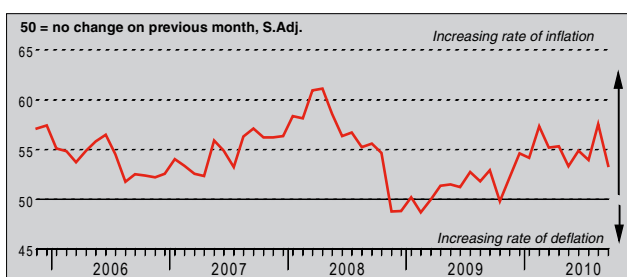
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The seasonally adjusted Prices Charged Index remained above the neutral level of 50.0 in September, pointing to a further rise in output prices set by Chinese service providers. Respondents that noted a rise in charges often linked this to higher input costs. However, the rate at which firms raised their charges was only slight, and the slowest in the current nine-month period of inflation. Where a decrease in output charges was signalled, panellists predominantly attributed this to strong competition for new business.

## Input Prices Index

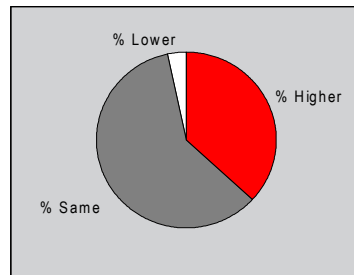
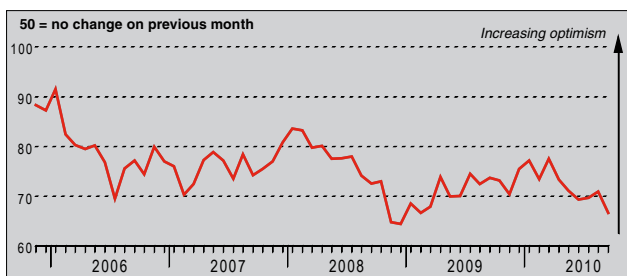
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input costs faced by service sector firms continued to rise in September, with around 9% of panellists reporting an increase from one month ago. However, the rate of input price inflation eased to the slowest in four months. Furthermore, the latest increase in purchasing costs was slower than the long-run series average. Anecdotal evidence suggested that input price inflation reflected higher raw material prices and, in some cases, increased salary 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?



Chinese service providers remained highly confident about the one-year outlook for business activity in September. Nonetheless, the degree of optimism was the weakest since February 2009. Almost 37% of firms monitored by the survey expect activity levels to be higher in twelve months' time, which they generally attribute to expectations of further new business wins. Positive sentiment is also supported by future new product launches and hopes that the economic recovery will continue at a brisk pace 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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