

Embargoed until: 10:30 (BEIJING), 3 December 2010

## HSBC China Services PMI™

Chinese service sector activity rose at the slowest rate for nearly two years in November.

### Key findings:

- New business growth eased to the slowest since February 2009.
- Input cost inflation accelerated to three-month high.
- Business confidence remained historically low.

November data pointed to a further loss of growth momentum in the Chinese service sector, with both activity and new business rising at the slowest rates in almost two years. This was signalled by the seasonally adjusted Business Activity Index posting 53.1, down markedly from 56.4 in October. Although at a level indicative of moderate growth, the index reading was the third-lowest since the start of the series in November 2005. Some panellists mentioned that the end of the Shanghai Expo had led to a reduction in services output, which acted to restrict the overall rate of activity growth. This was particularly the case in the Hotels & Restaurants and Transport & Storage sectors.

New business increased solidly in November, extending the current period of expansion to two years. Where a rise in new work was signalled, respondents linked growth to new product developments and rising client demand. However, the pace of expansion was the slowest since February 2009, with some panellists reporting that market conditions were unfavourable. A number of respondents in the Hotels & Restaurants sector also cited the end of the Shanghai Expo.

Outstanding business in the Chinese service sector decreased further in November. This occurred despite a solid rise in new business, suggesting that spare capacity existed at service providers' units. Nonetheless, the rate of backlog clearance was only slight, and the slowest in the current seven-month period of decline.

November data pointed to a solid increase in Chinese services

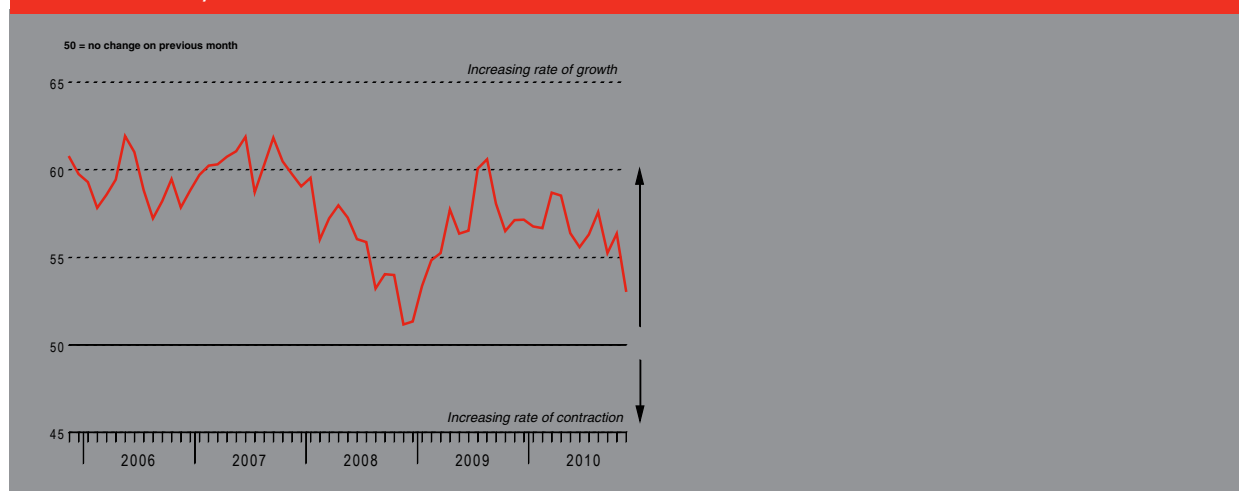
employment. The rate of job creation was broadly in line with the long-run series average, but much slower than the survey record seen in April. Anecdotal evidence provided by respondents suggested that employment growth predominately reflected further new business wins.

Average input costs faced by Chinese service providers increased markedly in November, and at the second-fastest rate since February. Input price inflation, which was stronger than the long-run series average, has now been signalled for thirteen months in succession. Higher labour-related and raw material costs were identified by survey respondents as the principal drivers of inflation.

Service providers in China reported passing on higher input costs to customers in the form of increased output charges. However, the rate of output price inflation was only modest, and slower than in October. Some panellists reportedly lowered their charges in an attempt to attract new business.

Business confidence amongst service providers in China remained strong in November. However, the degree of optimism was the fourth-lowest in the series history. Expectations of further gains in new business and company expansion policies underpinned respondents' positive sentiment regarding the twelve-month outlook for overall activity. Nonetheless, some service providers in the Hotels & Restaurants sector mentioned that the end of the Shanghai Expo had somewhat tempered optimism.

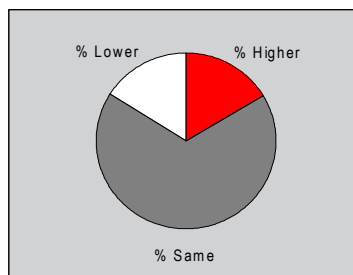
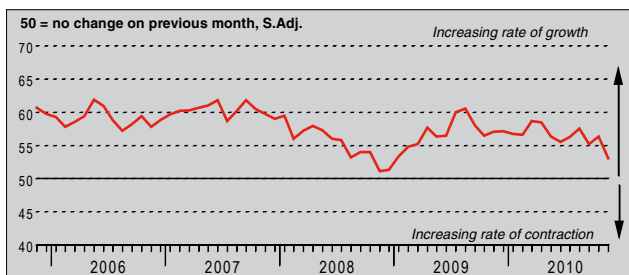
### Business Activity Index



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

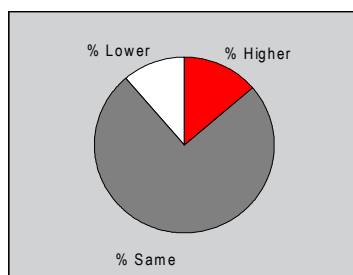
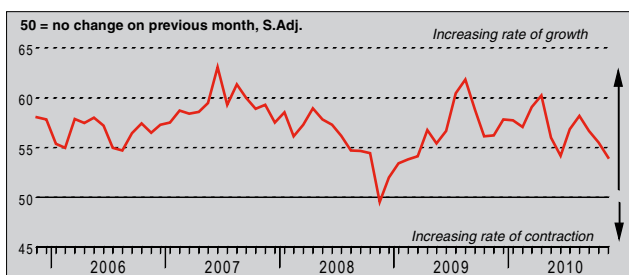
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index posted above the neutral level of 50.0 in November, pointing to a moderate increase in Chinese service sector activity. Where a rise in services output was signalled, panellists generally attributed growth to new business wins. However, the rate of expansion was the weakest in almost two years, and much slower than the long-run series average. Some survey participants reported that the end of the Shanghai Expo had led to a reduction in overall activity levels.

## New Business Index

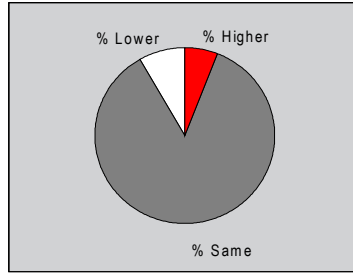
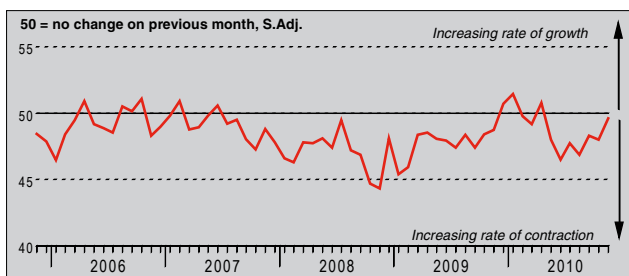
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The level of new business received by Chinese service sector firms rose further in November. Of those firms that reported an increase in new work (almost 14%), many attributed growth to new product development and rising client demand. Nonetheless, the pace of expansion eased for the third successive month to the slowest since February 2009. A number of companies in the Hotels & Restaurants sector reported a reduction in new business due to the end of the Shanghai Expo.

## Outstanding Business Index

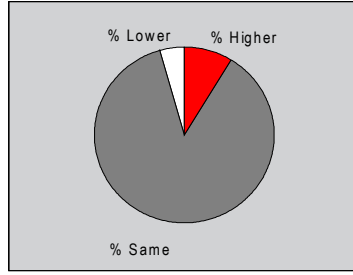
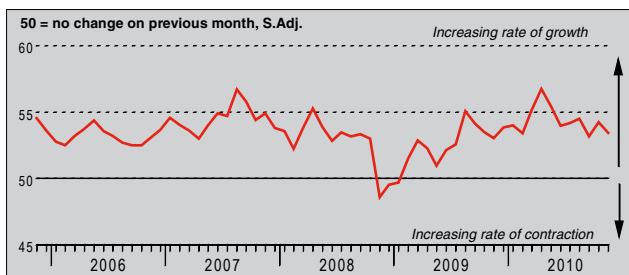
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business in the Chinese service sector decreased again in November. However, the rate at which backlogs were depleted was only slight, and eased to the slowest in the current period of decline, which now extends to seven months. The vast majority of panellists (almost 86%) reported no difference in unfinished work since the preceding month. The latest decrease suggests that an element of spare capacity remains in the sector.

## Employment Index

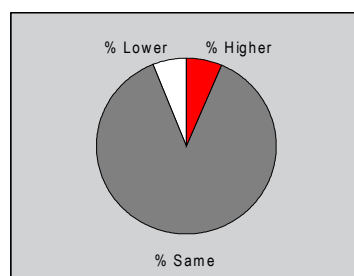
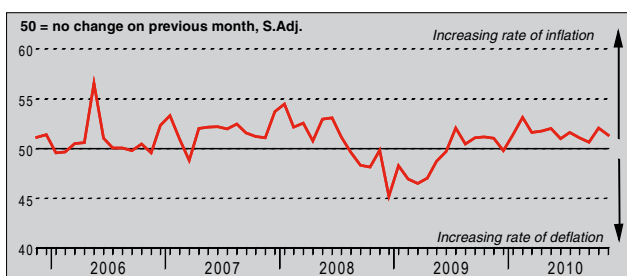
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



November's survey pointed to a solid rise in services employment, with almost 9% of firms reporting an increase since October. This compared to 5% that signalled a decline. As a result, the rate of job creation was solid, and broadly in line with the long-run series average. Employee numbers have risen throughout the majority of the series history, with the three-month period to January 2009 the only exception. Panellists reported hiring staff in response to greater inflows of new business.

## Prices Charged Index

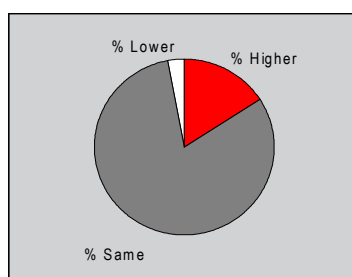
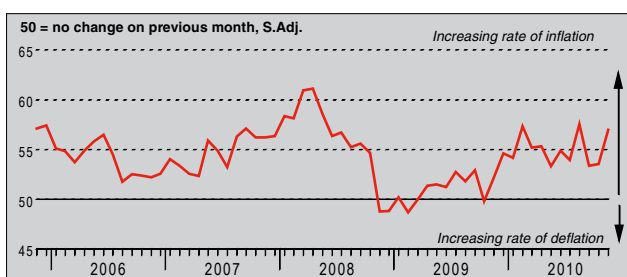
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output prices rose again in November, with the seasonally adjusted Prices Charged Index registering above the neutral level of 50.0 for the eleventh month in a row. Respondents noted passing on higher input costs to customers through increased output charges. However, the rate of inflation was only modest, with some panellists reporting that competitive pressures had tempered their pricing power. The majority of panellists (around 87%) reported that charges were unchanged compared to the preceding month.

## Input Prices Index

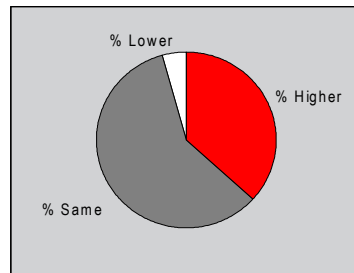
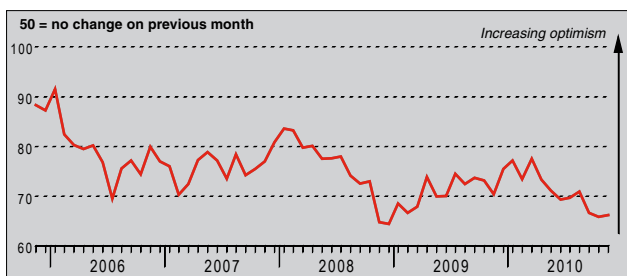
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The seasonally adjusted Input Prices Index indicated a marked and accelerated increase in average cost burdens during November. The latest reading pointed to the strongest rate of input price inflation since August. Anecdotal evidence primarily linked higher purchasing costs to rising raw material prices. Some respondents also cited increased labour-related costs. Input price inflation has now been recorded for thirteen 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?



Service providers in China were upbeat about the prospects for business activity in the year ahead. Anecdotal evidence suggested that business confidence reflected expectations that new order growth will continue to strengthen in the coming year. Business expansion plans were also mentioned by a number of panellists. However, the degree of optimism was the fourth-lowest in the series history. Some service providers in the Hotels & Restaurants sector mentioned that the end of the Shanghai Expo had dampened their business confidence.

## 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

The intellectual property rights to the HSBC China Services PMI™ provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.