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HSBC China Services PMI™

Activity growth held steady at historically subdued rate, as new business growth continued to lose momentum.

Key findings:

- Slowest increase in new business since February 2009.
- Solid rise in services employment.
- Business optimism dipped to series-record low.

Chinese service sector activity rose further in December, albeit at one of the slowest rates since the start of the series in November 2005, as a further slowdown in new business growth was recorded. Nonetheless, firms continued to hire additional staff in the latest survey period, with the rate of job creation quickening since November. This occurred despite a fall in business optimism to a series-record low. Meanwhile, service providers continued to pass on higher input costs to clients through increased output charges.

The seasonally adjusted Business Activity Index remained unchanged at 53.1 in December, pointing to a solid increase in service sector activity. For Q4 as a whole, overall growth of the sector was the weakest since Q4 2008, when the global economic recession was at its worst. Survey respondents reported that relatively subdued activity growth reflected a slower increase in new business. Although solid, the rate of expansion in new work was the weakest since February 2009. Where a rise in new business was signalled, respondents linked growth to new product developments and rising client demand.

Outstanding business in the Chinese service sector continued to fall in December, albeit only marginally. The latest decrease stretches the current period of decline to eight months, and suggests that spare capacity remains in the sector, despite a further rise in new work.

Staff levels increased for the twenty-third month running in December. The pace at which service providers added to their

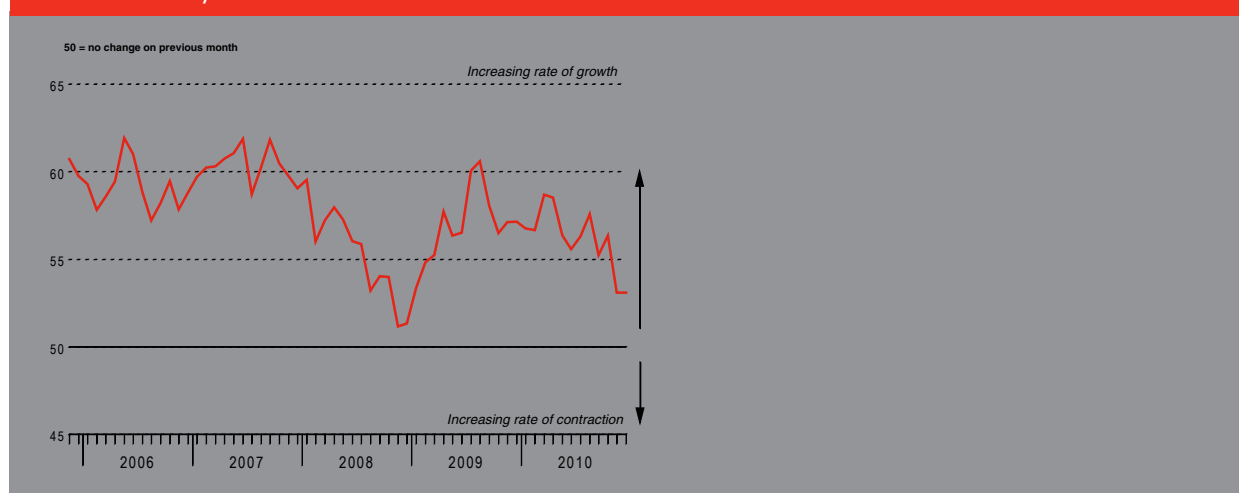
employee numbers was solid, but slightly slower than the average for 2010. Anecdotal evidence suggested that employment growth reflected continued new business wins. There were also reports of business expansion plans and new product developments.

The rate of input price inflation in the Chinese service sector eased since November, but remained faster than the long-run series average. According to respondents, cost inflation reflected a combination of increased raw material prices and higher personnel costs. The latest rise was the fourteenth in as many months.

December data pointed to another increase in output prices set by Chinese service providers. Although only modest, the rate of inflation was faster than the long-run trend. Where a rise in output charges was signalled, firms reported passing on higher costs to clients. Output price inflation has now been recorded continuously for a year.

Chinese service providers remained confident about the one-year outlook for business activity in December. Buoyant economic prospects, company expansion strategies and the roll-out of new services were all cited by survey respondents as factors that are likely to underpin expansion, while a number of companies expect new business growth to quicken in the coming year. However, the degree of optimism was the lowest in the series history, with some panellists reporting that the end of the Shanghai Expo had dampened business expectations.

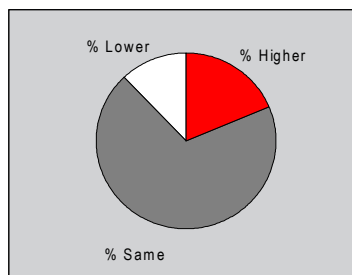
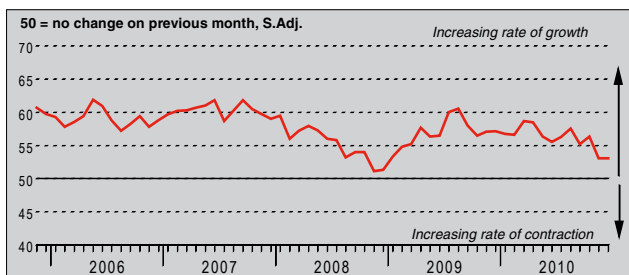
Business Activity Index



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

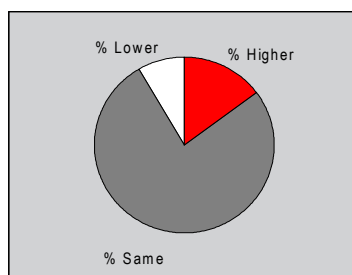
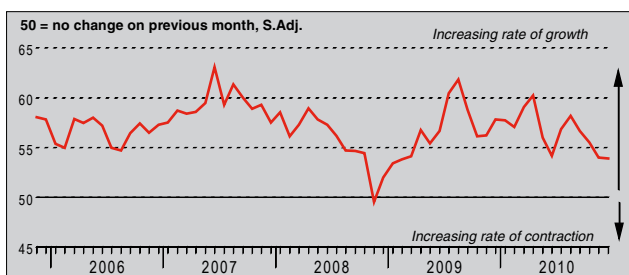
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Chinese service sector activity rose further in December, with almost 19% of respondents reporting an increase since the preceding month. The seasonally adjusted Business Activity Index was unchanged at 53.1, a level indicative of a solid rate of expansion. Nonetheless, the latest increase was one of the slowest since the start of the series in November 2005. Subdued activity growth predominately reflected a slower increase in new work.

New Business Index

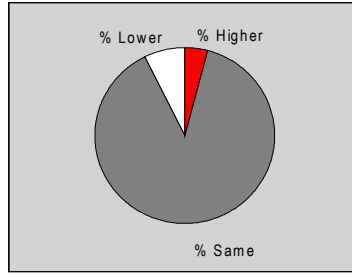
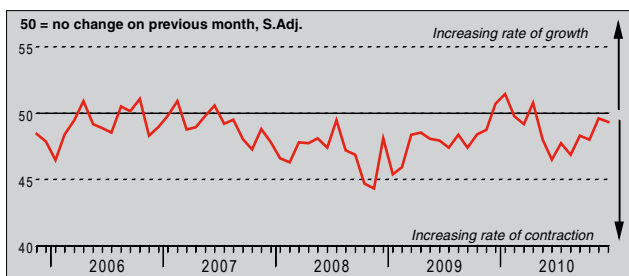
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The level of new business received by Chinese service providers rose solidly in December. Of those firms that reported an increase in new work (almost 15%), many attributed growth to firmer client demand. However, the rate of new order growth eased for the fourth successive month, with the seasonally adjusted New Business Index falling to a twenty-two month low. Furthermore, in Q4 as a whole the index averaged its lowest quarterly reading since Q1 2009.

Outstanding Business Index

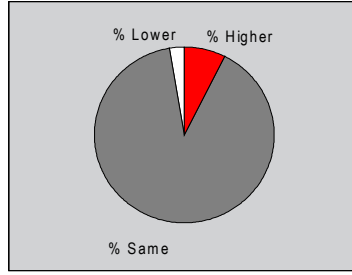
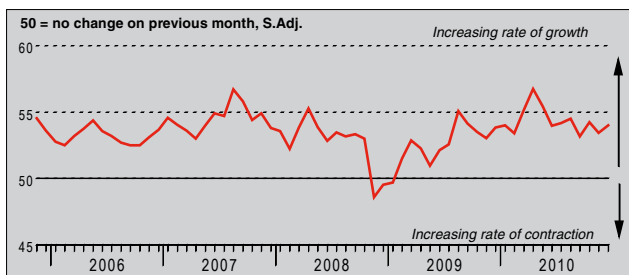
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business in the Chinese service sector decreased further in December. This occurred despite a solid rise in new business, suggesting that spare capacity existed at service providers' units. However, the rate at which firms reduced their backlogs of work was only slight, with the vast majority of panellists (almost 89%) reporting that unfinished business levels were unchanged since November. The latest decrease stretches the current period of decline to eight months.

Employment Index

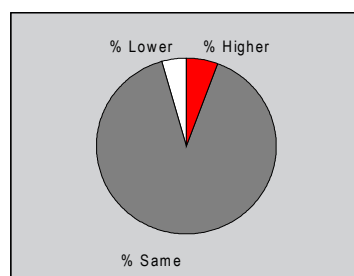
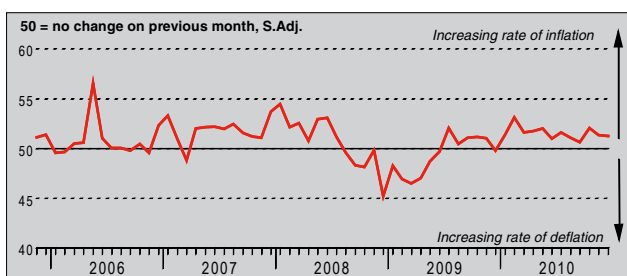
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



December data pointed to another rise in Chinese services employment, with panellists predominately attributing growth to greater inflows of new business. There were also reports of business expansion plans and new product developments. The rate of job creation was solid, and slightly faster than in the preceding month. Furthermore, the latest rise was stronger than the long-run series average. Continuous employment growth has now been recorded for almost two years.

Prices Charged Index

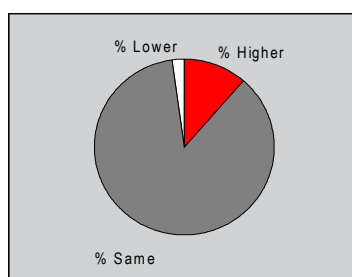
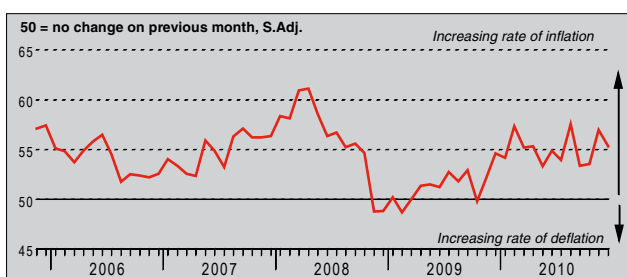
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Chinese service providers raised their output charges in December, largely in response to higher input costs. However, the rate of inflation was only modest, with some panellists reporting that competitive pressures had tempered their pricing power. Output prices have now risen continuously for a year, although rates of inflation have remained subdued throughout this period. The majority of panellists (almost 90%) reported that output charges were unchanged since November.

Input Prices Index

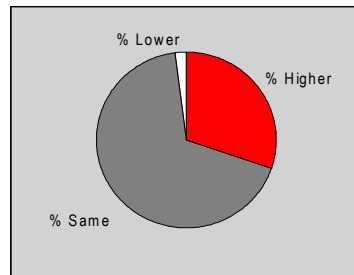
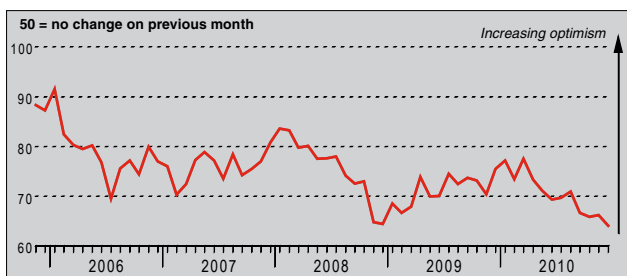
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The seasonally adjusted Input Prices Index remained above the neutral level of 50.0 in December, pointing to a marked rise in average input costs faced by Chinese service sector firms. Despite easing since November, the rate of inflation was faster than the long-run series average. Around 11% of companies reported an increase in input prices, which they generally attributed to higher raw material prices. There were also reports of increased personnel 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 were confident about future activity levels in December. Panellists widely linked positive sentiment to expectations that new business growth will gather momentum in the year ahead. New product developments and buoyant economic prospects were also mentioned. However, the degree of optimism was the lowest since the start of the series in November 2005. Firms operating in the Hotels & Restaurants sector commented that the end of the Shanghai Expo had dampened their business optimism.

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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