HSBC Purchasing Managers' Index™ 2011

compiled by markit

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HSBC China Services PMI™

Chinese service sector activity growth eases to third-lowest in the five-year survey history.

Key findings:

- Slowdown in new business growth continues.
- Cost inflation remains robust.
- Business optimism the fourth-lowest in series history.

Chinese service sector activity growth lost momentum at the start of 2011, after holding steady in the preceding month, with the rate of expansion slowing to the third-slowest in the survey history. The headline HSBC Business Activity Index, compiled by Markit, posted 52.0 in January, down from 53.1 in December, a level indicative of only a modest rate of activity growth. The index was only slightly higher than the series-record low of 51.2 recorded in November 2008, and markedly weaker than the long-run series average (57.6).

January data pointed to a further slowdown in new business growth at the start of the year, with the rate of expansion easing to a twenty-five month low. Respondents linked slower new business growth to relatively lacklustre client demand. Sales 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.

Slower new business growth resulted in a further decline in work outstanding, suggesting that spare capacity persists in the sector. The latest decrease extends the current period of contraction to nine months, although the rate at which backlogs of work were depleted was only marginal, and slightly slower than the long-run series average.

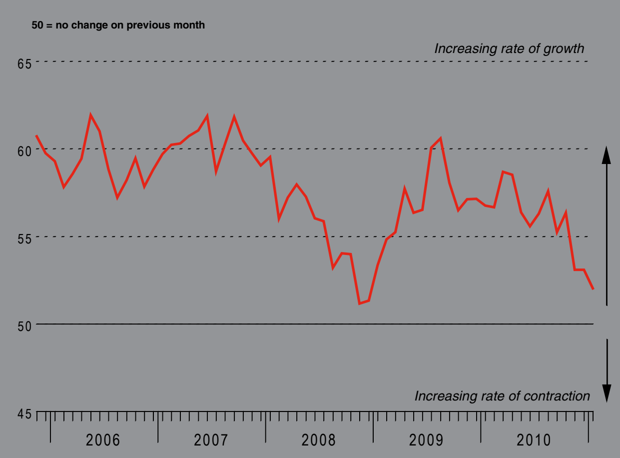
Chinese service providers continued to hire additional workers in January. However, the rate of job creation eased to a one-and-a-half year low, primarily reflecting relatively subdued new business growth. Staff numbers have now risen continuously for two years.

Average input costs faced by Chinese service providers rose again in January. The pace of input price inflation was robust, and faster than the long-run trend. The latest increase stretches the current period of rising costs to fifteen months. Anecdotal evidence suggest that inflation reflected a combination of increased labour-related costs and rising raw material prices. Higher fuel costs were also mentioned by a number of panellists.

Prices charged by Chinese service providers increased at the start of the year, largely reflecting ongoing cost inflation. Some firms in the Transport & Storage sector reported increasing their tariffs in response to rising fuel costs. However, competition for new business continued to suppress firms' pricing power somewhat, with the latest increase only modest. Output prices have now risen for thirteen consecutive months, although rates of inflation have remained subdued throughout this period.

According to the latest data, Chinese service sector companies were confident about the outlook for business activity in the year ahead. However, the degree of optimism was the fourth-lowest in the series history. Positive sentiment was linked to future new product developments, and hopes that the economic recovery will continue at a brisk pace. Conversely, respondents that were pessimistic about future activity levels cited expectations that competition for new business will strengthen in the coming year.

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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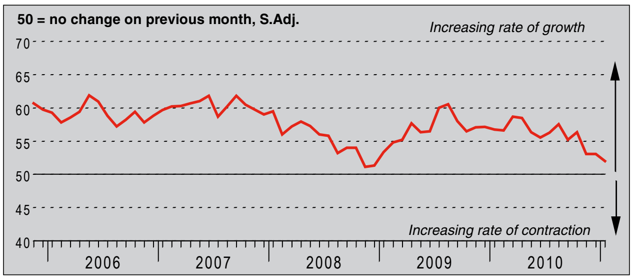
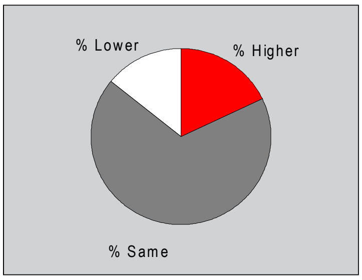
Business Activity Index

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.

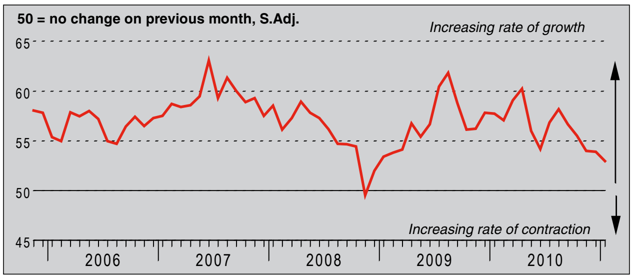


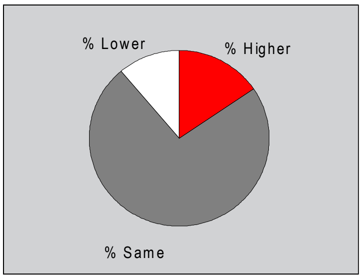


After holding steady in the previous month, the seasonally adjusted Business Activity Index fell to a near-record low at the start of the year, signalling only a modest increase in Chinese service sector activity. At 52.0, the index was markedly lower than the long-run series average of 57.6. According to survey participants, the weaker increase in services output reflected a further slowdown in new business growth.

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.

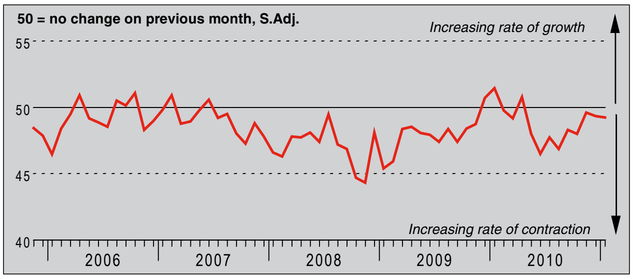


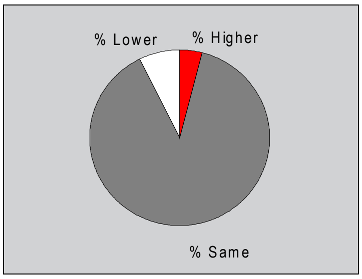


The level of new business received by Chinese service providers continued to rise at the start of 2011, with almost 16% of panellists reporting an increase since the preceding month. Nonetheless, the seasonally adjusted New Business Index fell for the fifth successive month, pointing to the slowest month-on-month rise in incoming new orders since December 2008. Respondents linked slower new business growth to relatively lacklustre client demand.

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.

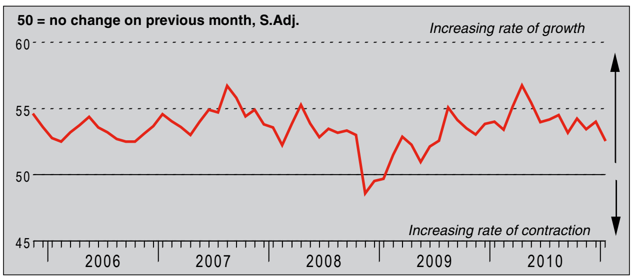


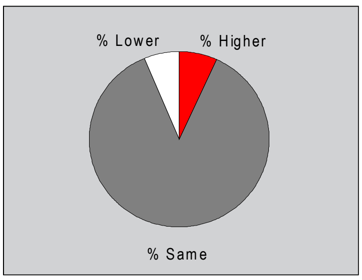


Work-in-hand (but not yet completed) in the Chinese service sector fell further in January, with the seasonally adjusted Outstanding Business Index posting below the neutral level of 50.0 for the ninth month in succession. However, the rate at which backlogs of work were depleted was marginal. Anecdotal evidence provided by the survey panel suggested that reduced work outstanding reflected subdued growth of new business and corresponding spare capacity at firms' units.

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).

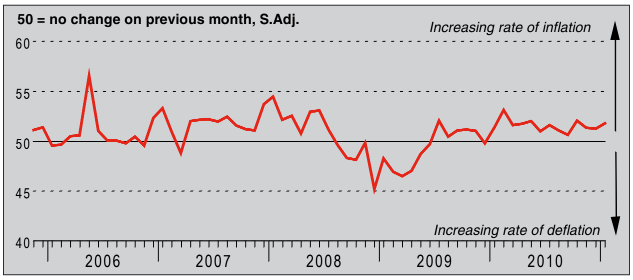


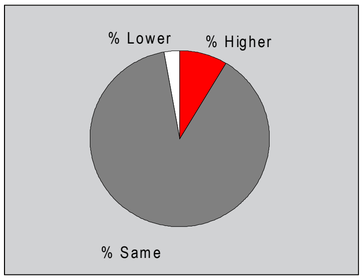


January survey data pointed to another increase in Chinese service employment, although the rate of job creation eased to the slowest for a year-and-a-half. The vast majority of panellists (almost 87%) reported that staff numbers were unchanged since December. The latest increase extends the current period of growth to two years. Respondents to the latest survey reported that a slower increase in employment primarily reflected lacklustre growth of incoming 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.

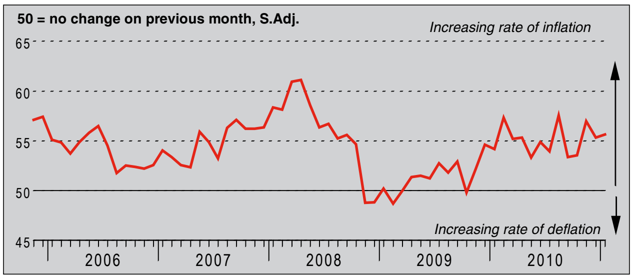


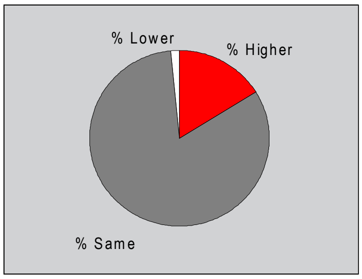


Output prices set by Chinese service providers rose further at the start of the year, largely as a result of higher input costs. Some firms in the Transport & Storage sector reported increasing their tariffs in response to rising fuel costs. Nonetheless, the rate at which firms raised their output charges was only modest, as competition for new business continued to suppress their pricing power. Output prices have now risen for thirteen months in succession, although rates of inflation have remained lacklustre throughout this period.

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.

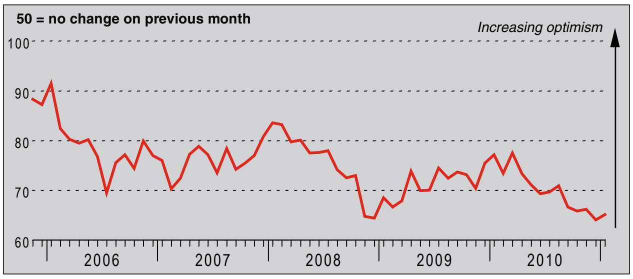


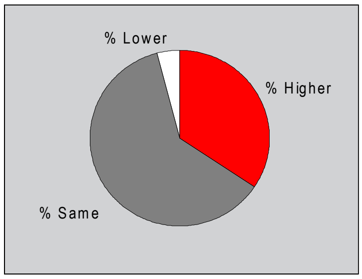


The seasonally adjusted Input Prices Index posted above the neutral 50.0 threshold for the fifteenth month running in January, signalling a further increase in average input costs faced by Chinese service providers. The rate of inflation was robust, and stronger than the long-run trend. Anecdotal evidence suggest that inflation reflected a combination of increased labour-related costs and rising raw material prices. Higher fuel costs were also mentioned by a number of panellists.

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 were confident about the business outlook for the year ahead in January, with around 34% of respondents expecting activity levels to be higher come the start of 2012. Firms attributed business optimism to expectations of further new business wins. Positive sentiment is also supported by hopes that the economic recovery will continue at a brisk pace. Nonetheless, the degree of optimism was the fourth-lowest in the series history, with some companies reporting that strong competitive pressures 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