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HSBC China Services PMI™

Business activity growth eased further, but input price inflation strengthened to four-month high.

Key findings:

- New business rises at a solid pace.
- Slowest rate of job creation since May 2009.
- Business expectations remain optimistic.

March PMI data signalled a further improvement in business conditions within the Chinese service sector. This largely reflected modest rates of growth in both activity and new business. However, the overall improvement was at a lesser extent than in February, with the headline index falling to the lowest reading since December 2008. Monitored companies commented that greater cost burdens limited any noticeable expansions in business activity during the latest survey period. In particular, higher salary costs resulted in employment growth slowing to a twenty-two month low.

The headline seasonally adjusted HSBC Business Activity Index, compiled by Markit, posted 51.7 in March, down from 51.9 in February. Although the latest reading indicated a moderate increase in overall business activity at Chinese service providers, it was the third-lowest in the series history. Survey respondents generally attributed the recent activity growth to greater demand and a subsequent rise in new business volumes.

Monitored companies received a larger amount of new sales in March, extending the current period of expansion to twenty-eight months. A number of firms commented on winning several new clients during the latest survey period. The rate of new business growth strengthened since February, but remained below the long-run series average.

Chinese service providers continued to register a lower level of outstanding business in March. Moreover, the rate of decline was broadly similar to that recorded in the previous survey

period.

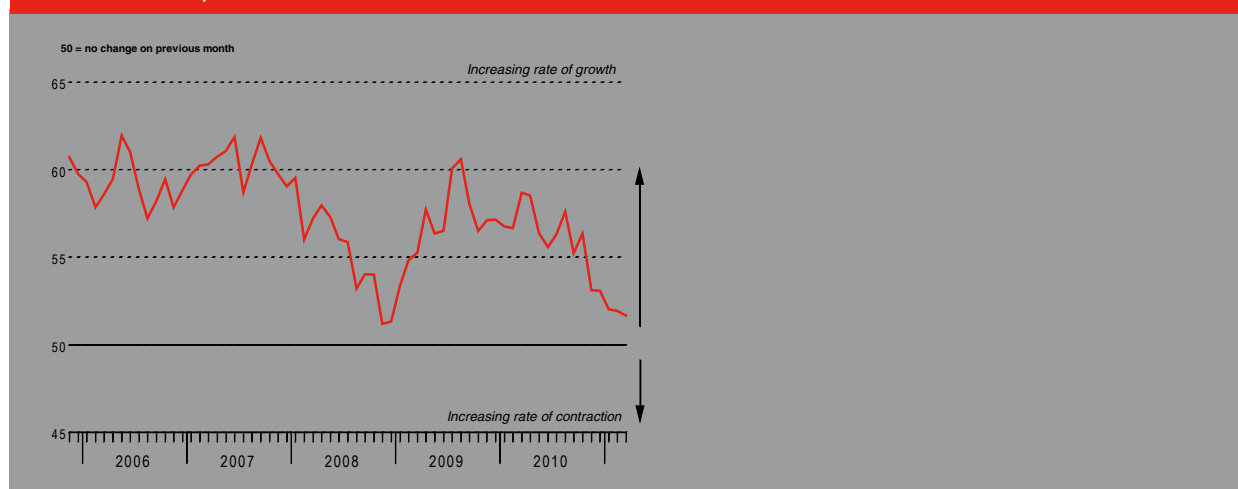
Meanwhile, reflective of further activity and new business growth, the number of people employed within the Chinese service sector increased. This extended the current expansion in headcounts to twenty-six months. Although the latest rate of job creation was modest, it was noticeably slower than that recorded in February. Survey respondents commented that their workforces increased at a slower pace as they attempted to control escalating salary bills.

The average cost of inputs rose at a marked pace in March. A wide range of goods were reported by panellists as having increased in price during the latest survey period, but wages and fuel were particularly highlighted. Subsequently, the rate of input price inflation quickened to a four-month high during March, and remained well above the series average.

Firms successfully passed some of the greater cost burdens on to clients in March. Prices charged by survey respondents rose at a solid pace, but the increase continued to be slower than that of input costs.

Surveyed companies remained optimistic over future business activity during the latest survey period. Respondents expect to develop their businesses over the next twelve months that will consequently increase new business volumes further. Nevertheless, confidence in future activity growth fell noticeably since February and remained low in the historic context of the series.

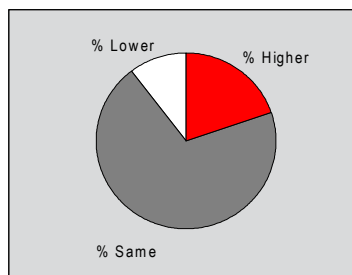
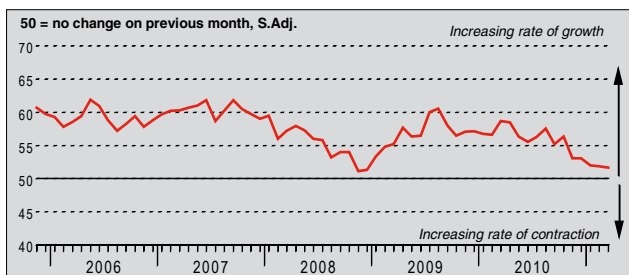
Business Activity Index



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

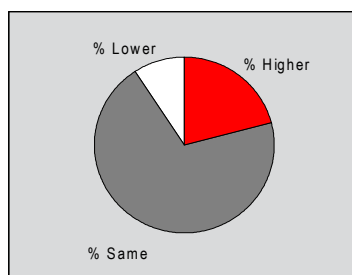
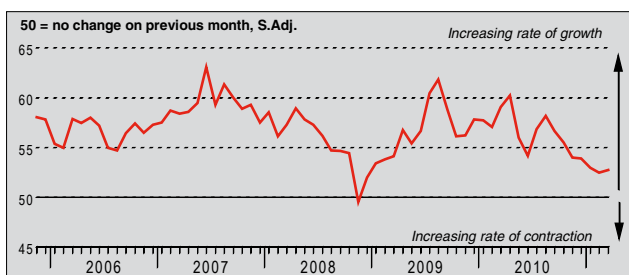
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Chinese service providers registered a further increase in the level of business activity during March, as has been the case since the survey started in November 2005. However, activity growth weakened since February to a twenty-seven month low – the third-slowest monthly rise in the series history. Anecdotal evidence generally attributed the latest increase in business activity to higher market demand and a subsequent rise in new business.

New Business Index

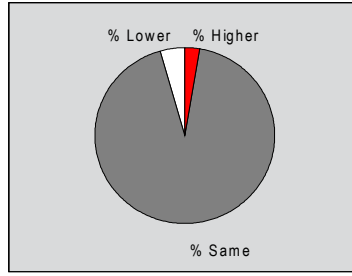
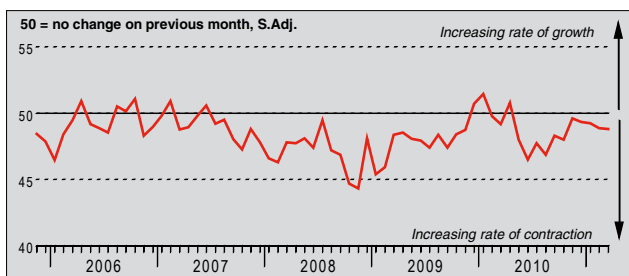
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The level of new business received by companies operating in the Chinese service sector rose at a solid pace in March, extending the current period of expansion to twenty-eight months. Despite the rate of increase strengthening since the previous survey period, the pace remained noticeably below the long-run series average. Survey respondents commented that greater market demand resulted in a larger number of new sales made. Additionally, a number of panellists reported winning several important new clients during the latest survey period.

Outstanding Business Index

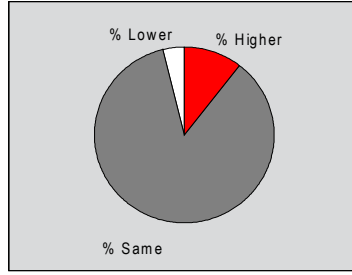
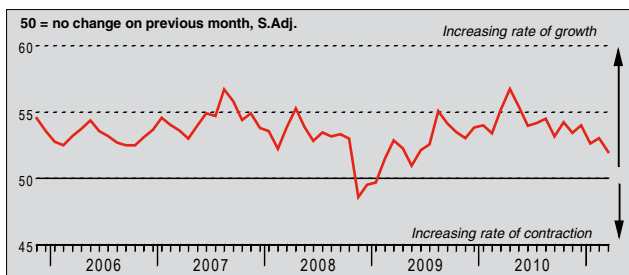
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



In March, the seasonally adjusted Outstanding Business Index posted below the 50.0 no-change threshold. This indicated the level of work-in-hand (but not yet completed) decreased, continuing the trend that began in May 2010. The latest reading was broadly similar to that recorded previously and signalled the pace of decline remained modest. Chinese service providers suggested that they were able to accommodate all new business received during the latest survey period.

Employment Index

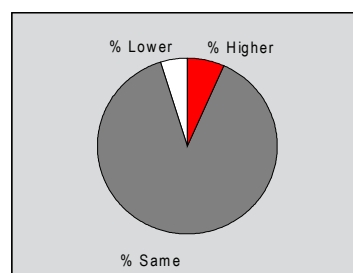
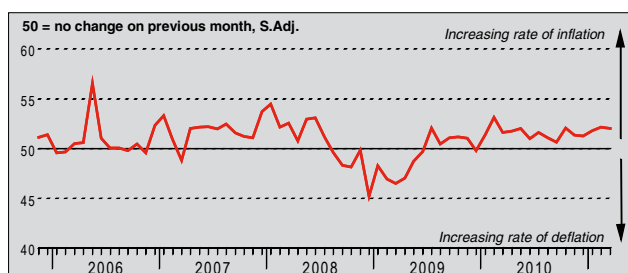
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



The number of people employed by companies in the Chinese service sector increased for the twenty-sixth consecutive month in March. However, the rate of job creation slowed to the weakest pace since May 2009, despite remaining modest. Firms sought to expand their headcounts during the latest survey period to cope with greater new business volumes and recent activity growth. Nevertheless, anecdotal evidence suggested that employment growth was limited by firms attempting to control escalating salary bills.

Prices Charged Index

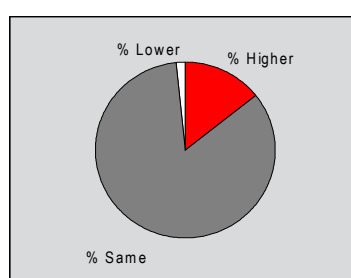
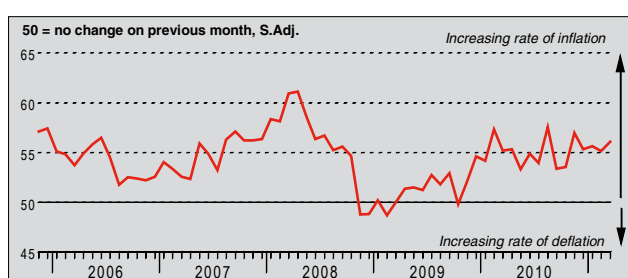
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The average price charged by surveyed firms increased further in March, extending the current period of inflation to fifteen months. This was indicated by the seasonally adjusted Prices Charged Index posting solidly above the 50.0 no-change level and above the long-run series average. Anecdotal evidence indicated that firms successfully passed greater cost burdens, reflective of a marked rate of input price inflation, on to clients during the latest survey period.

Input Prices Index

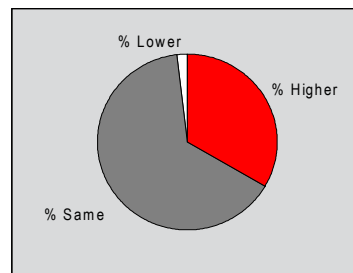
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Monitored companies recorded a marked rise in the average cost of inputs in March, as has been the case since November 2009. The rate of input price inflation quickened since February to a four-month high and remained noticeably above the long-run series average. Panellists cited a wide range of inputs as having risen in cost during the latest survey period, but salaries and fuel were particularly highlighted.

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?



As has been the case since the survey started in November 2005, Chinese service providers remained optimistic over future business activity levels. Anecdotal evidence suggested that firms expect to develop their businesses, subsequently increasing their sales, over the course of the next year. However, confidence in activity growth over the next twelve months fell markedly from the previous survey period and remained low in the historic context of the series.

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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