

Embargoed until: 10:30 (BEIJING), 6 April 2011

HSBC China Services PMI™ (with Composite PMI data)

New business growth for China's private sector at eight-month low, whilst price pressures remain marked

Summary

China's private sector recovered slightly from February's sharp slowdown in March. This was indicated by the seasonally adjusted HSBC Composite Output Index rising from 51.9 to 52.7 during the latest survey period. Nevertheless, the latest PMI reading concluded the slowest quarterly rise in business activity since Q1 2009.

The level of output recorded across the Chinese private sector increased in March, largely reflecting a solid expansion in manufacturing production. Meanwhile, in the service sector, activity growth remained only modest. The HSBC Business Activity Index fell from 51.9 in February, to 51.7 in March – the lowest reading since December 2008.

Chinese service providers recorded a higher level of new business during March, extending the current period of expansion to twenty-eight months. However, although the rate of growth quickened since the previous survey period, it remained below the long-run series average. Similarly, the amount of new orders received by manufacturers continued to be low in the historical context of the series. Therefore, overall new business growth for the Chinese private sector weakened to an eight-month low in March.

The number of people employed in China's service sector increased further during the latest survey period. The rate of job creation was modest, but noticeably slower than that recorded in February. This, coupled with a marginal rise in headcounts by Chinese manufacturers, resulted in only a slight increase in private sector employment.

Meanwhile, the average cost of inputs rose markedly for Chinese service providers in March. The rate of input price inflation, although slower than the manufacturing sector, strengthened to the fastest pace since November 2010. Subsequently, the overall rate of cost inflation remained marked during the latest survey period.

Monitored companies in the service sector successfully passed greater cost burdens on to clients during March. However, the increase in prices charged was lower than that of input costs. At the composite level, output prices also rose solidly, but the rate of inflation was the weakest since last August.

Service providers remained optimistic over future business activity levels in March. Panellists expect to develop their businesses over the next twelve months that will subsequently raise new business levels further. Nevertheless, confidence fell sharply from February and was low in comparison to the overall series history.

Comment

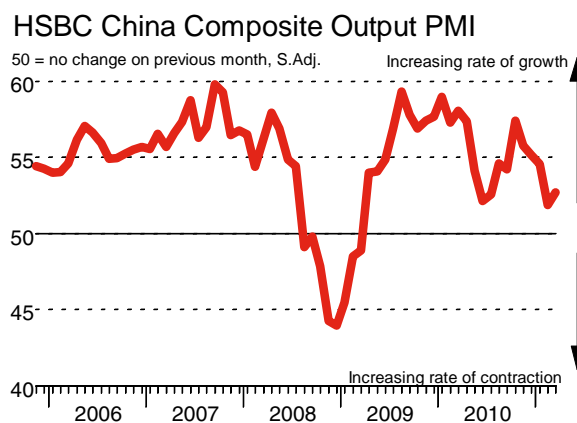
Commenting on the China Services and Composite PMI data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The service sector slowed for the third consecutive month, reflecting the filtering-through of policy tightening effects. Cooling demand curbs the pass-through of rising labour and fuel costs, which is beneficial to contain services inflation, though bad for profit margins. That said, no need to panic about a sharp slowdown in services thanks to the continuous improvement in the labour market and rapid income growth."

Key points

- Private sector output rose at a solid pace.
- Marked increase in overall cost burdens.
- Service providers remain optimistic over future activity growth.

Historical Overview



For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China & Co-Head
of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Diana Mao, Head of Group Communications, China
Telephone +86 21 3888 1251
Email dianayqmao@hsbc.com.cn

Markit

Alex Hamilton, Economist
Telephone +44-1491-461-076
Email alex.hamilton@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44781 581 2162
Email caroline.lumley@markit.com

Notes to Editors:

The HSBC China Services PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The HSBC China Composite PMI™ is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Chinese manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 7,500 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US\$2,455 billion at 31 December 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading, global financial information services company with over 2,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

The intellectual property rights to the HSBC China Services and Composite PMI™ provided herein is owned by Markit Group. 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.