

Embargoed until: 10:30 (BEIJING), 5 May 2011

HSBC China Services PMI™

Activity growth remains modest in April, as new orders rise at the slowest rate since December 2008.

Key findings:

- Service sector activity rises at slowest rate for twenty-eight months.
- Marked pace of input cost inflation signalled.
- Service sector expectations muted in the context of historical data.

Growth of the Chinese service sector weakened slightly in April, with the overall expansion slowing for the fourth successive month to only a modest rate. Highlighting this, the headline seasonally adjusted Business Activity Index dropped fractionally from 51.7 to 51.6 in April, remaining below the long-run series average of 57.3. Slower growth primarily reflected a weaker rise in incoming new business. There were also reports that activity growth was restricted by state-led policies aimed at cooling the property sector.

The level of new business received by Chinese service providers rose again in April, extending the current period of expansion to twenty-nine months. However, the rate of new order growth, which has eased in seven of the past eight months, was only modest, and the slowest since December 2008. Service providers operating in the Renting & Business Activities sector reportedly saw a slowdown in new business growth as government policies aimed at limiting property price rises took hold.

April data pointed to a twelfth successive month-on-month decline in outstanding business, although the rate of backlog clearance was only marginal. Slower new business growth was cited as the principal factor contributing to the latest decline in work outstanding, suggesting that spare capacity persists in the sector.

Service sector employment in China rose for a twenty-seventh successive month during April. Despite quickening since March,

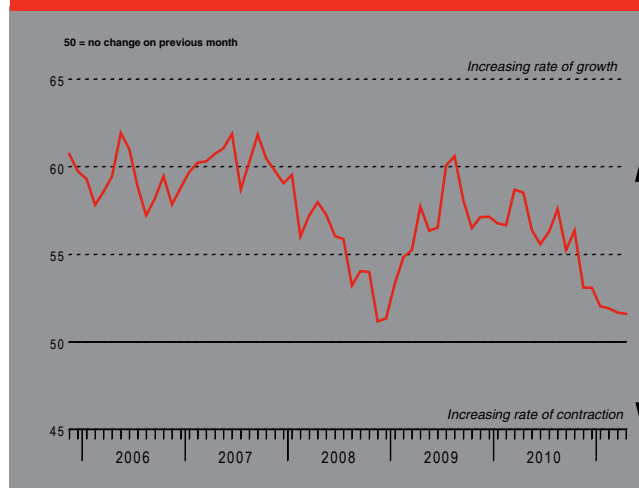
the rate at which firms added to their staff numbers was slower than the long-run trend. Anecdotal evidence suggested that employment growth reflected new product developments and, in some cases, company expansion policies.

The rate of input price inflation eased slightly since March, but nevertheless remained marked, and stronger than the long-run trend. The latest increase in input costs extends the current period of inflation to eighteen months. According to survey respondents, input cost inflation principally reflected rising raw material prices. Some panellists also mentioned increased fuel and labour-related costs.

Service providers continued to pass on higher input costs to clients through increased output charges in April. The rate of inflation was the fastest in fourteen months, and stronger than the long-run trend. A number of firms in the Transport & Storage sector reported increasing their tariffs in response to rising fuel costs.

Chinese service providers remain confident regarding the one-year outlook for activity in April. New product developments and buoyant economic prospects were cited by panellists as having supported positive sentiment in the latest survey period. Around 36% of companies expected business activity to be higher in twelve months' time, versus only 3% that anticipate a fall. That said, the degree of optimism was weak in the context of historical data, with the relevant index almost eight points lower than the long-run series average.

Business Activity Index



Summary of Survey Findings

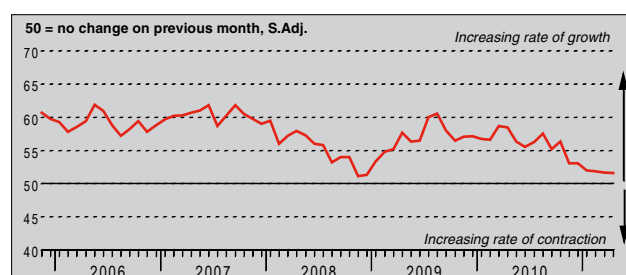
	Current Index	Previous Index	Change signalled
Business Activity	51.6	51.7	Modest expansion (slower than March)
New Business	52.4	52.8	Modest expansion (slower than March)
Backlogs of Work	49.6	48.8	Marginal contraction (slower than March)
Employment	52.4	52.0	Modest expansion (faster than March)
Prices Charged	52.3	52.0	Modest inflation (faster than March)
Input Prices	55.9	56.1	Marked inflation (slower than March)
Expectations	66.8	65.7	Optimistic outlook (more positive than March)

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	16.4	67.5	16.1	0.4	50.2	53.1
	Dec	18.6	69.2	12.1	6.5	53.3	53.1
2011	Jan	17.9	67.9	14.2	3.7	51.8	52.0
	Feb	17.7	51.0	31.3	-13.6	43.2	51.9
	Mar	19.7	69.9	10.4	9.3	54.7	51.7
	Apr	16.9	76.9	6.2	10.7	55.4	51.6

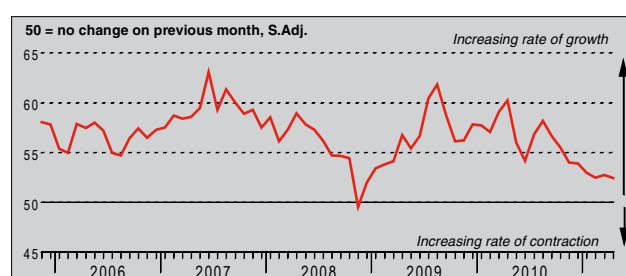


After adjusting for seasonal factors, the Business Activity Index pointed to a further rise in Chinese service sector activity during April. However, the rate of expansion was only modest, and eased for the fourth successive month to the slowest since December 2008. This primarily reflected a weaker rise in incoming new business. There were also reports that activity growth was restricted by state-led policies aimed at cooling the property sector.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	13.7	75.0	11.3	2.4	51.2	54.0
	Dec	14.8	76.8	8.5	6.3	53.2	53.9
2011	Jan	15.5	73.4	11.1	4.3	52.2	53.0
	Feb	12.5	65.2	22.3	-9.8	45.1	52.5
	Mar	20.9	69.8	9.3	11.6	55.8	52.8
	Apr	14.9	79.1	5.9	9.0	54.5	52.4

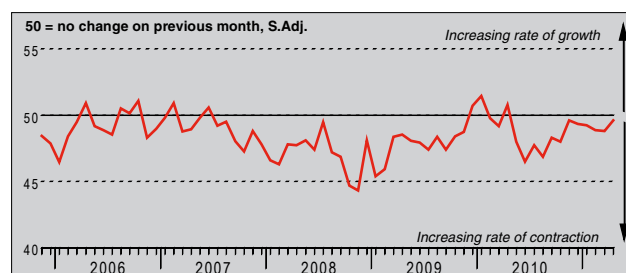


In line with the trend observed since December 2008, the level of new work received by Chinese service providers rose in April. However, the seasonally adjusted New Business Index posted its third-lowest reading since data were first compiled in November 2005, signalling a relatively lacklustre rise in new order intakes. Highlighting the loss of growth momentum since mid-2010, the overall pace of expansion has now eased in seven of the past eight months.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	6.0	85.7	8.4	-2.4	48.8	49.6
	Dec	4.1	88.5	7.4	-3.3	48.4	49.4
2011	Jan	4.0	88.6	7.3	-3.3	48.3	49.2
	Feb	3.5	92.2	4.3	-0.8	49.6	48.9
	Mar	2.7	92.9	4.5	-1.8	49.1	48.8
	Apr	4.3	91.3	4.4	-0.2	49.9	49.6

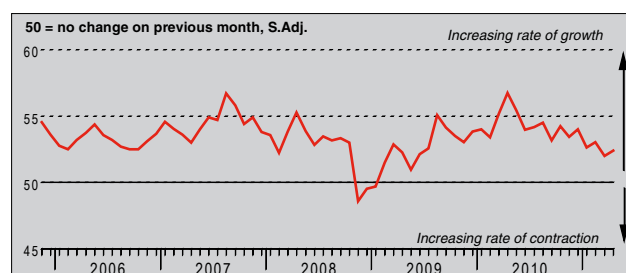


Outstanding business in the Chinese service sector fell again during April. Nonetheless, the rate of backlog depletion was only marginal, with the vast majority of panellists (approximately 91%) reporting no change since the preceding month. The latest decline stretches the current period of contraction to a year. Of those firms that signalled a reduction in work-in-hand (around 4%), most attributed this to lacklustre growth of incoming new business.

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).

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	8.7	86.8	4.5	4.3	52.1	53.4
	Dec	7.4	89.9	2.7	4.7	52.4	54.0
2011	Jan	6.9	86.8	6.4	0.5	50.3	52.7
	Feb	9.3	87.4	3.3	6.0	53.0	53.1
	Mar	10.5	85.6	3.8	6.7	53.3	52.0
	Apr	9.1	88.4	2.4	6.7	53.4	52.4

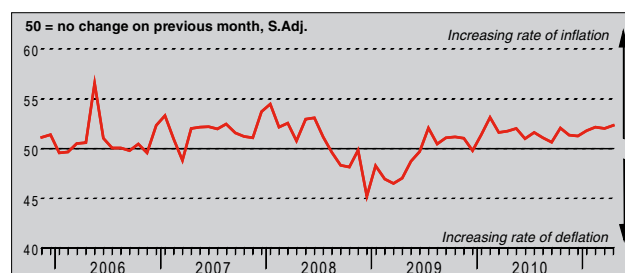


Chinese services employment continued to rise in April. The rate at which companies added to their workforce numbers was moderate, and faster than in the previous month, but still slower than the long-run series average. Anecdotal evidence suggested that employment growth reflected new product developments and, in some cases, company expansion policies. Where a reduction in staff numbers was signalled, firms linked this to retirements and resignations.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	6.4	87.4	6.1	0.3	50.2	51.4
	Dec	5.7	89.9	4.4	1.3	50.6	51.3
2011	Jan	8.6	88.6	2.8	5.8	52.9	51.8
	Feb	6.5	89.9	3.6	2.9	51.5	52.2
	Mar	6.7	88.5	4.9	1.8	50.9	52.0
	Apr	6.3	92.4	1.3	5.0	52.5	52.3

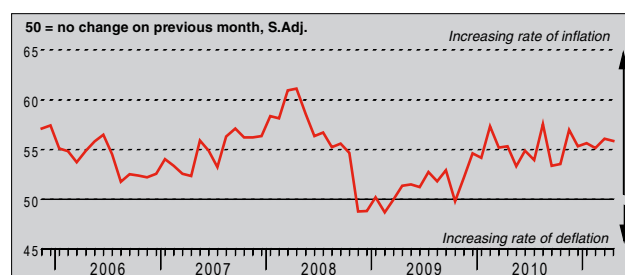


Prices charged by Chinese service providers rose moderately in April, with around 6% reporting an increase since the preceding month. This compared to only 1% that recorded a decline. The resulting pace of inflation was the fastest in fourteen months, and stronger than the long-run trend. Respondents noted passing on higher input costs to customers through increased output charges. The latest rise in service providers' tariffs extended the current period of inflation to sixteen months.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	15.9	81.1	3.0	12.8	56.4	57.0
	Dec	11.4	86.3	2.2	9.2	54.6	55.4
2011	Jan	16.1	82.2	1.6	14.5	57.3	55.6
	Feb	12.0	84.8	3.3	8.7	54.3	55.2
	Mar	14.3	84.0	1.7	12.6	56.3	56.1
	Apr	14.5	84.5	1.0	13.6	56.8	55.9



After adjusting for seasonal variation, the Input Prices Index indicated a marked increase in average cost burdens faced by Chinese service providers during April. The latest reading pointed to a rate of input price inflation that was stronger than the long-run series average. Anecdotal evidence primarily linked higher input costs to rising raw material and fuel prices. Some respondents also cited increased labour-related costs. Input price inflation has now been recorded for eighteen 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?

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2010	Nov	36.7	58.9	4.4	32.4	66.2	N/A
	Dec	30.2	67.7	2.0	28.2	64.1	N/A
2011	Jan	34.4	61.5	4.1	30.3	65.1	N/A
	Feb	41.6	55.6	2.8	38.8	69.4	N/A
	Mar	33.4	64.7	1.9	31.4	65.7	N/A
	Apr	36.3	61.1	2.6	33.6	66.8	N/A



Chinese service sector firms were confident that activity would be higher than present levels in one years time, largely reflective of optimism regarding the economic outlook and expectations that client demand will strengthen in the coming year. Business expansion plans were also mentioned by a number of panellists. However, the degree of positive sentiment was muted in the context of historical data. Some service providers mentioned 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

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.