Embargoed until: 10:30 (BEIJING), 3 June 2011

HSBC China Services PMI™

Activity growth in the Chinese service sector accelerates to seven-month high in May.

Key findings:

- Higher activity supported by fastest increase in new work since October 2010.
- Employment growth reaches three-month high.
- Business confidence dips to series-record low.

Growth of the Chinese service sector quickened to a seven-month high in May. This was signalled by the seasonally adjusted Business Activity Index posting 54.3, up from April's near-record low of 51.6. Although at a level indicative of a solid rate of expansion, the index remained below the long-run series average of 57.3. Anecdotal evidence provided by the survey panel suggested that activity growth reflected greater inflows of new work.

Similar to the trend for business activity, the rate of new order growth also accelerated to the fastest since October 2010, but remained slower than the long-run trend. May's solid rise extended the current period of growth to two-and-a-half years. Where an increase in new business was recorded, many panellists reported that improved market demand had resulted in new contracts being secured from clients. Some respondents also mentioned new product developments and promotional activities.

Chinese service providers reported another decline in outstanding business during May, although the pace of reduction was only marginal. Below-par new business growth was cited by panellists as a factor enabling them to reduce work outstanding, and implying that spare capacity persists in the sector.

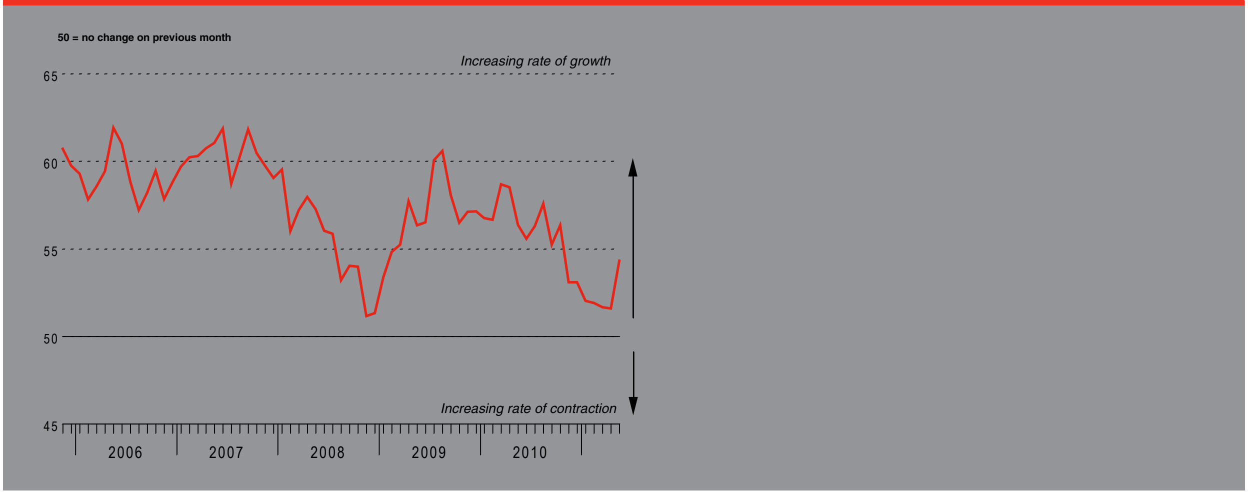
Employment in the Chinese service sector increased again in May, extending the current period of expansion to twenty-eight months. Furthermore, the rate of job creation was solid, and accelerated to the sharpest since February. Staff recruitment was attributed by panellists to greater inflows of new work and, in some cases, business expansion plans.

May data pointed to a marked gain in average input costs faced by Chinese service providers, with the rate of inflation quickening to a six-month high. The majority of survey participants attributed the increase in input prices to a combination of higher labour-related costs and a rise in the price of raw materials. Some respondents also mentioned increased fuel costs. Chinese service providers have now recorded input cost inflation for nineteen consecutive months.

Companies passed on part of the increase in their costs to clients in the form of higher charges during May. Nonetheless, the rate of output price inflation was only modest, and eased to the slowest since September 2010. A number of respondents signalled that competitive pressures had constrained their pricing power in the latest survey period.

Expectations for activity in the Chinese service sector remained positive in May, with 29% of the survey panel anticipating activity levels to be higher in twelve months' time. Positive sentiment was linked to future new product developments, and hopes that the wider economy will continue to grow at a brisk pace. Although substantial, the degree of optimism decreased to the lowest since data were first compiled in November 2005. Firms operating in the Hotels & Restaurants sector reported that strong competitive pressures had somewhat tempered business optimism.

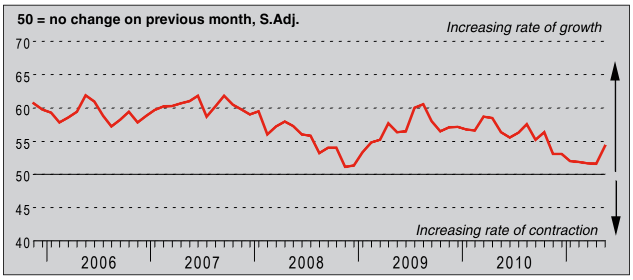
Business Activity Index

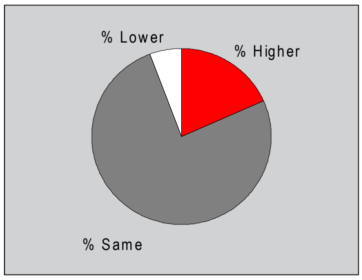


The survey uses a methodology identical to the HSBC China Manufacturing *PMI™*. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Chinese services economy.

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.

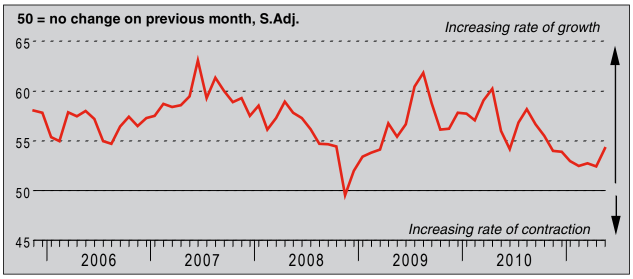


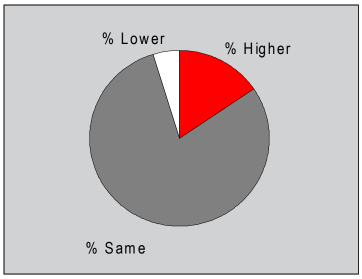


In line with the trend observed throughout the series history, business activity in the Chinese service sector rose during May. The seasonally adjusted Business Activity Index pointed to a solid rate of growth that was the steepest in seven months. However, the index was noticeably lower than the long-run series average. Anecdotal evidence indicated that the rise in activity predominantly reflected an increase in new business placed with Chinese service providers.

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.

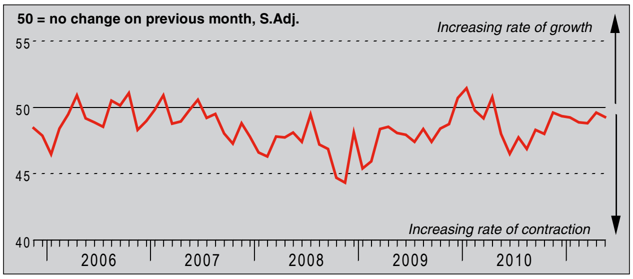


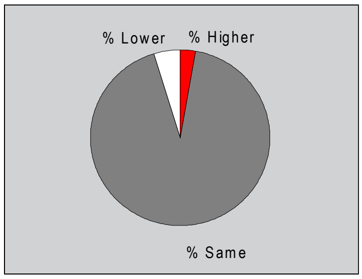


The level of new business received by Chinese service providers increased solidly in May, with the rate of growth accelerating to a seven-month high. That said, the latest increase was comfortably weaker than the long-run series average. Almost 16% of respondents signalled a rise in new work since the preceding month, with many reporting that improved market demand had resulted in new contracts being secured from clients. New product developments and promotional activities were also mentioned by a number of panellists.

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.

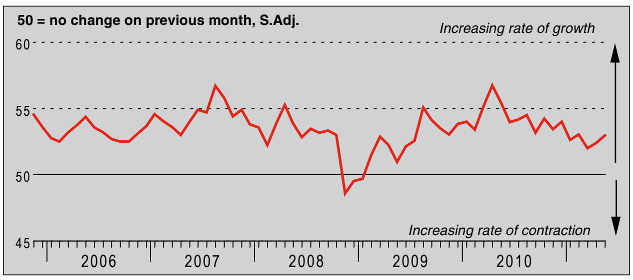


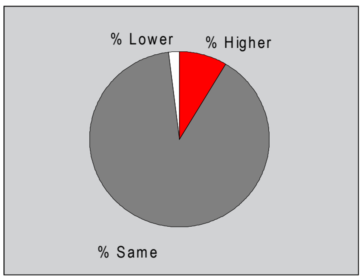


A further decline in outstanding business was recorded during May. Nonetheless, the rate at which backlogs of work were depleted was only marginal, with the vast majority of panellists (almost 93%) reporting no change since the preceding month. The seasonally adjusted Backlogs of Work Index has now posted below the neutral 50.0 threshold for thirteen months in a row. Anecdotal evidence suggested that falling work-in-hand was primarily the result of below-par new business growth.

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).

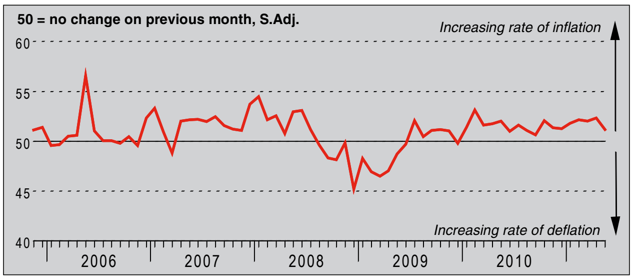


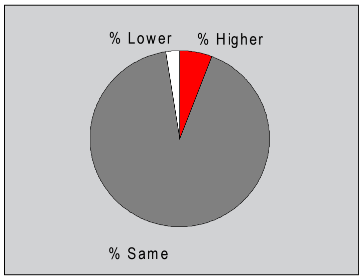


Chinese service providers signalled another rise in staffing levels during May, with almost 9% of panellists reporting an increase from one month earlier. In contrast, only 2% of respondents noted a reduction. The resulting pace of job creation was moderate, and accelerated to the fastest in three months. Where a rise in payroll numbers was reported, this was attributed to new business wins and, in some cases, business expansion plans. Employment growth has now been recorded for twenty-eight months in succession.

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.

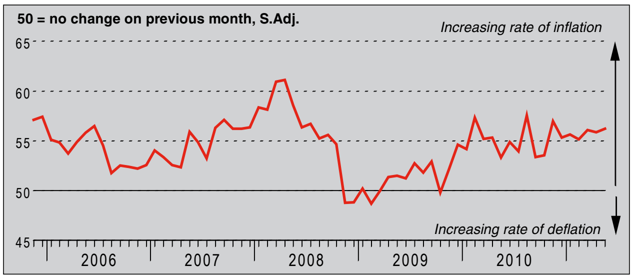


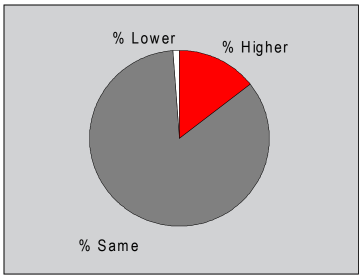


Prices charged by Chinese service providers rose for a seventeenth successive month during May. Those panellists that reported a rise in charges (approximately 6%) generally reported on efforts to offset higher input costs. However, the rate of output price inflation was only modest, and eased to the slowest since September 2010. A number of survey respondents indicated that competitive pressures had constrained their pricing power 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.

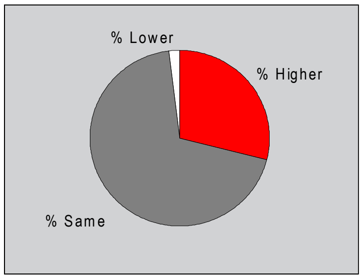




After adjusting for seasonal trends, the Input Prices Index remained above the neutral 50.0 threshold for a nineteenth successive month in May, signalling a further increase in average cost burdens faced by Chinese service providers. The rate of input price inflation was marked, and the fastest in six months. Higher labour and raw material costs were identified by survey respondents as the principal drivers of inflation. Some respondents also mentioned rising fuel 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 May. Panellists widely linked positive sentiment to expectations that new order growth will gather momentum in the year ahead. New product developments and buoyant economic prospects were also mentioned by a number of respondents. Nonetheless, the degree of optimism was the lowest since data were first compiled in November 2005. Firms operating in the Hotels & Restaurants sector reported that strong competitive pressures had somewhat tempered 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.

Warning