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HSBC China Services PMI™

Activity growth eases to series-record low in August

Key findings:

- Marginal expansion of services output recorded
- Job creation only marginal
- Business optimism rises to four-month high, but remains well below trend

PMI™ survey data showed activity growth easing to a series-record low during August, as new business intakes again rose at a slower rate. This in turn contributed to a sharper pace of backlog depletion and only a marginal rise in staff numbers. Despite this, confidence in the one-year business outlook reached a four-month high. Meanwhile, average input prices rose markedly, but strong competitive pressures prevented firms from passing the full extent of cost rises onto clients.

The headline seasonally adjusted HSBC Business Activity Index, compiled by Markit, fell from 53.5 to a series-record low of 50.6 in August, signalling only a marginal expansion of service sector activity. Moreover, the month-on-month drop in the index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – was the largest since last November. According to survey respondents, the subdued increase in services output reflected a further slowdown in new business growth and, in some cases, state-led policies aimed at cooling the property sector.

Incoming new work received by service providers rose for the thirty-third month running during August, although the pace of growth eased to the slowest in that sequence. Anecdotal evidence frequently suggested that muted client demand had led to the weaker rise in overall new business. There were also reports of government policies aimed at limiting property purchases.

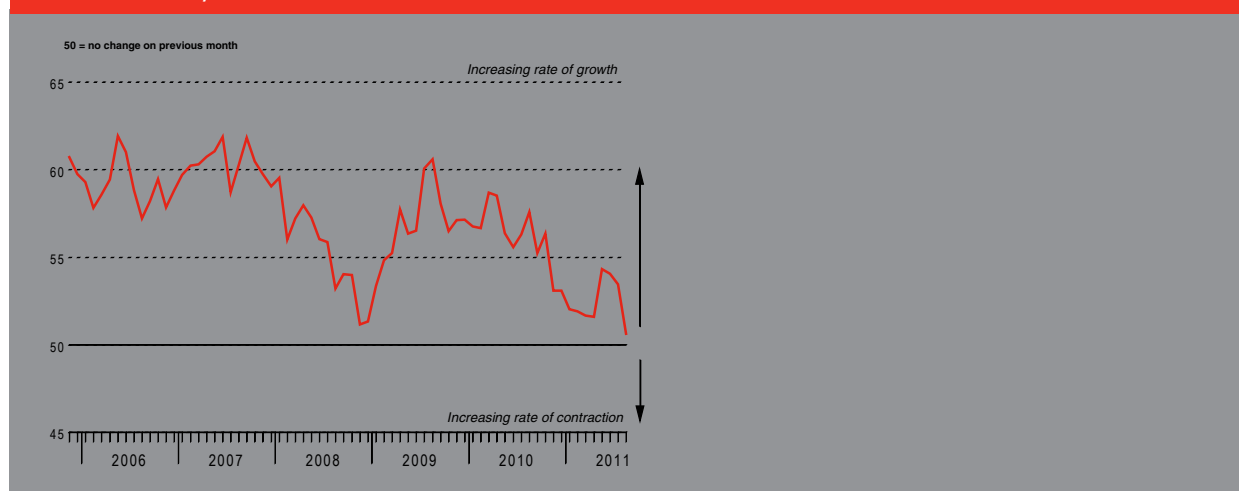
August data signalled that service sector firms made inroads into their backlogs of work for the sixteenth successive survey period. Although only modest, the rate of decline in outstanding business was the fastest since October 2010.

Further backlog depletion, coupled with subdued new order growth, meant that firms added to their staff numbers at only a marginal rate in August. The latest increase in employment was the slowest in the current period of job creation, which now extends to more than two-and-a-half years.

Meanwhile, on the prices front, average cost burdens continued to rise markedly in August, primarily reflecting pressure from higher salary payments. The rate of inflation eased to the slowest since February, but remained stronger than the long-run trend for the survey. Despite marked cost rises, firms increased their output prices only marginally in August, as strong competitive pressures restricted their pricing power. Average tariffs have now risen continuously since January 2010, with the latest increase the second-slowest in that sequence.

Despite weakness in activity and demand, latest numbers highlighted an increase in service sector business confidence, with the degree of optimism the highest in four months. According to survey respondents, confidence was supported by expectations of new product launches and the success of commercial activities. Nonetheless, the index measuring changes in sentiment was almost 10 points lower than the long-run series average.

Business Activity Index

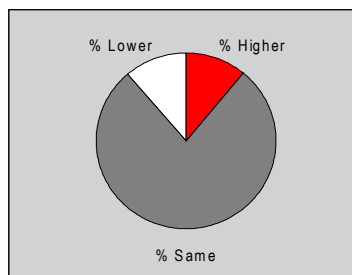
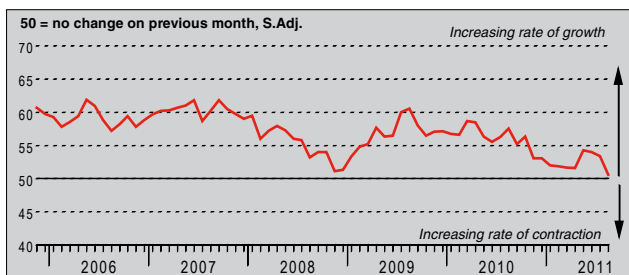


The survey uses a methodology identical to the HSBC China Manufacturing PMI™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Business Activity Index

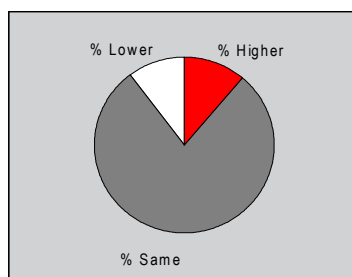
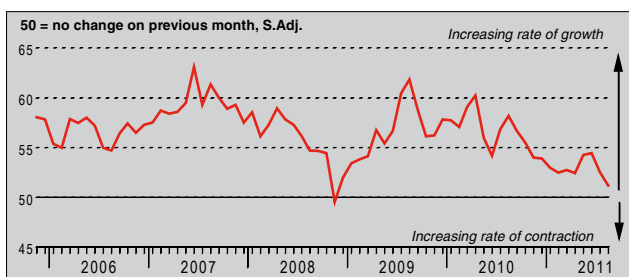
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Activity growth in the Chinese service sector eased to only a marginal rate in August, with the seasonally adjusted Business Activity Index falling for a third successive month to a series-record low. According to survey respondents, the subdued increase in services output was widely linked to a further slowdown in new business growth. There were also reports that the overall expansion was restricted by state-led policies aimed at cooling the property sector.

New Business Index

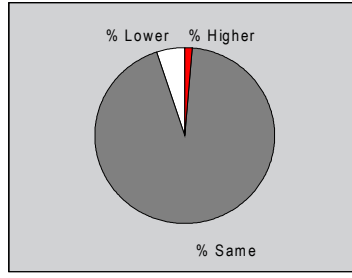
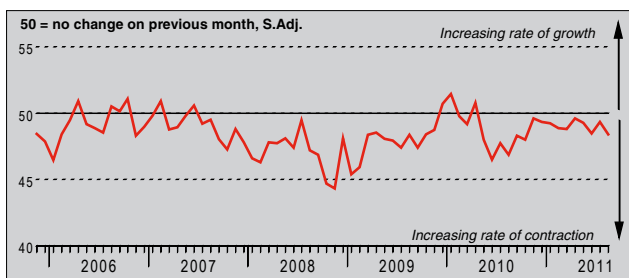
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



After adjusting for seasonal variation, the New Business Index posted above the neutral level of 50.0 for the thirty-third successive month during August, signalling a further increase in new work taken by service providers. However, the latest index reading was the second-lowest in the series history, and indicated only a modest rate of new business growth. Panellists cited weaker demand conditions as contributing to the slower increase in new orders. Additionally, a number of panellists mentioned state-led policies aimed at restricting property purchases.

Outstanding Business Index

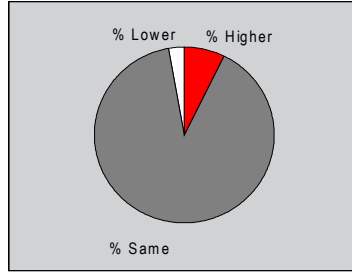
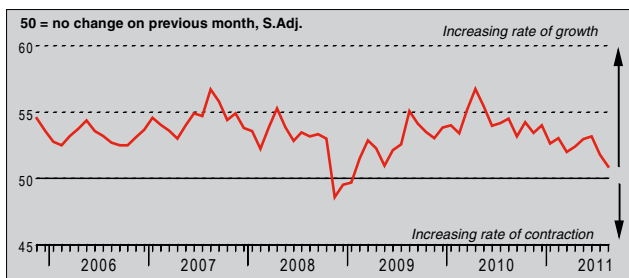
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlogs of work in the Chinese service sector fell again during August, with the seasonally adjusted Outstanding Business Index posting below the 50.0 no-change value for the sixteenth month in a row. Although at a level indicative of only a modest rate of backlog depletion, the latest index reading was the lowest since October 2010. Of those panellists that recorded a decrease in work-in-hand (around 5%), many attributed this to a further moderation in new business growth.

Employment Index

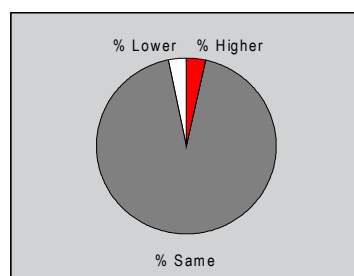
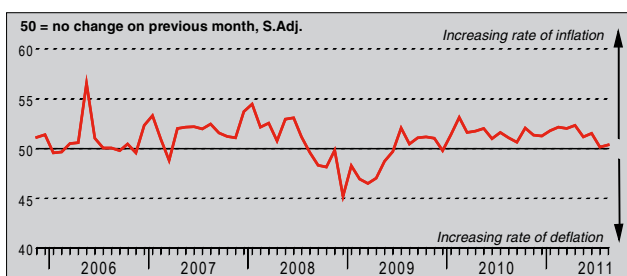
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Chinese service providers pointed to a continued increase in employee numbers at their units during August. Where employment increased, this was linked by panellists to business expansion plans. However, the rate of job creation was only marginal, and eased to the slowest in the current period of expansion, which now extends to 31 months. The vast majority of panellists (almost 90%) reported no difference in staffing levels from one month ago.

Prices Charged Index

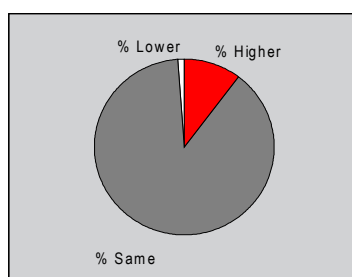
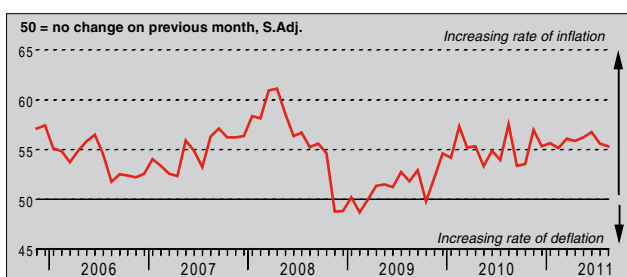
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



The seasonally adjusted Prices Charged Index signalled another rise in output prices set by Chinese service providers during August. However, with around 93% of respondents reporting no change in average tariffs, the rate of output charge inflation was only marginal. Despite rising since July, the latest index reading was the second-lowest since December 2009. Panel members widely commented that strong competitive pressures had restricted their pricing power in the latest survey period.

Input Prices Index

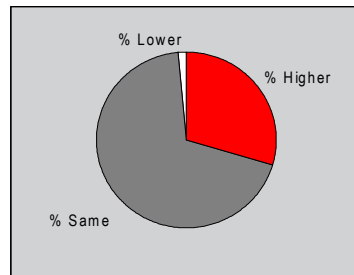
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



The average cost of inputs faced by Chinese service providers rose markedly in August. Around 10% of panellists reported higher input prices since the preceding month, with labour-related costs mentioned in particular. Despite easing to the lowest since February, the rate of inflation was stronger than the long-run trend for the survey. The seasonally adjusted Input Prices Index has now posted above the neutral level of 50.0, signalling inflation, for 22 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?



When questioned about the prospects for business activity at their units over the next 12 months, service providers in China expressed continued optimism regarding the short-term business outlook. Positive sentiment was attributed by panellists to expectations of better economic conditions, new product launches and the success of commercial activities. Despite rising further from June's series-record low, to a four-month high, the Business Expectations Index signalled a subdued degree of optimism in the context of historic data.

Notes on the Data and Method of Presentation

The China Services *PMI*TM 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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