

10:30 (BEIJING), 03 October 2011, IMMEDIATE RELEASE

HSBC China Services PMI™

Chinese services activity rises at faster pace in September

Key findings:

- Solid increase in business activity, but rate of expansion historically low
- New business growth accelerates to three-month high
- Business optimism remains subdued

September data showed activity growth in China's service sector improving from August's series-record low, as new orders increased at the fastest rate in three months. Despite this, confidence in the one-year business outlook dipped to the joint second-lowest in the series history. Meanwhile, spare capacity persisted in the sector, with backlogs of work falling marginally, but service providers added to their staff numbers nonetheless. On the price front, average input prices rose markedly, but competitive pressures prevented firms from passing the full extent of cost rises onto clients.

After posting a series-record low of 50.6 in August, the headline seasonally adjusted HSBC Business Activity 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 – climbed to 53.0 in September, signalling a solid expansion of Chinese service sector activity. The index has remained above the neutral level of 50.0, indicating growth, since data were first compiled in November 2005. Where an increase in business activity was signalled, survey respondents commonly linked this to greater inflows of new business. However, the rate of expansion was relatively subdued in the context of historical data. There were reports that activity growth was limited by state-led policies aimed at cooling the property sector.

The level of new business received by Chinese service providers rose again in September, extending the current period of growth to 34 months. Better market demand, new product launches and the success of promotional activities were all cited as having

contributed to the latest increase. Despite accelerating to the fastest in three months, the rate of expansion in new work was slower than the long-run average for the survey.

Chinese service providers continued to report few difficulties in dealing with existing workloads, with outstanding business falling further in September. Nonetheless, the rate of backlog depletion was only marginal.

September data pointed to another increase in Chinese service sector employment, although the pace of job creation was only modest. Additionally, for Q3 as a whole, the index measuring employment trends averaged its lowest quarterly reading since Q1 2009.

Average input costs rose further in September. Despite easing to an 11-month low, the pace of inflation was marked, and stronger than the long-run trend. Higher raw material and fuel costs were cited as the primary drivers of input cost inflation. Companies raised their output prices accordingly. However, the rate of charge inflation was only modest, and much slower than for input costs.

When questioned about the prospects for activity at their units over the next 12 months, service providers in China expressed optimism regarding the business outlook. However, the extent of positive sentiment was the joint second-lowest in the series history. Companies operating in the Renting & Business Activities sector cited policies aimed at cooling the property sector as having dampened business confidence.

Business Activity Index

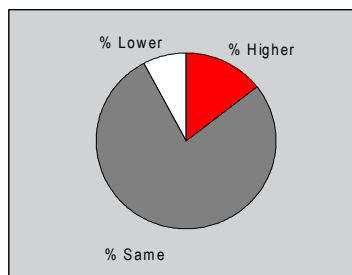
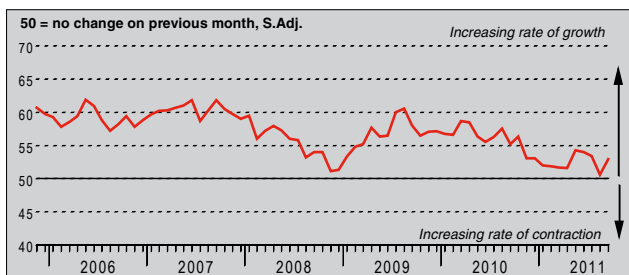


The survey uses a methodology identical to the HSBC China Manufacturing PMI™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure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

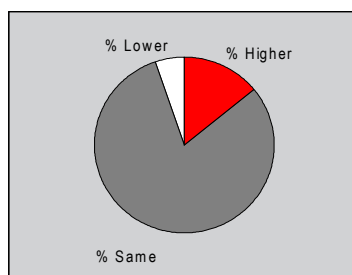
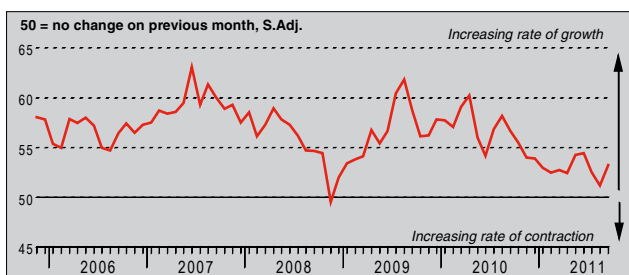
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Continuing the trend observed since the start of the series in November 2005, business activity in the Chinese service sector increased during September. Anecdotal evidence provided by the survey panel suggested that activity growth predominantly reflected continued new business wins. Despite accelerating since the preceding month, the rate of expansion was lacklustre in the context of historic data. There were reports that activity growth was limited by state-led policies aimed at cooling the property sector.

New Business Index

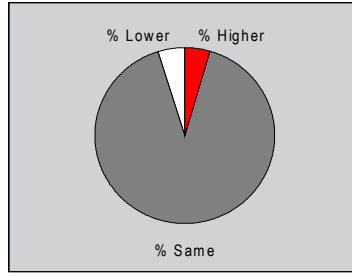
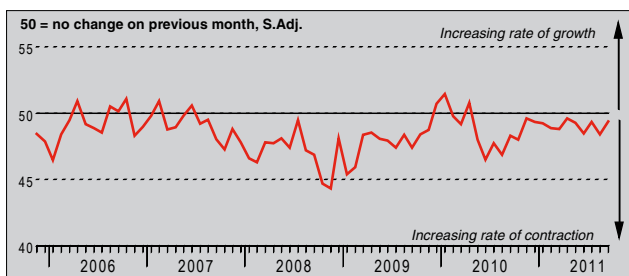
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Incoming new business received by Chinese service providers rose for the thirty-fourth month running in September. Around 14% of the survey panel reported an increase, which the majority attributed to better market demand. New product launches and the success of promotional activities were also mentioned. Despite rising to a three-month high, the seasonally adjusted New Business Index was at a level indicative of a subdued rate of expansion in the context of historic data. Moreover, for Q3 as a whole, the index averaged its lowest quarterly reading since Q4 2008.

Outstanding Business Index

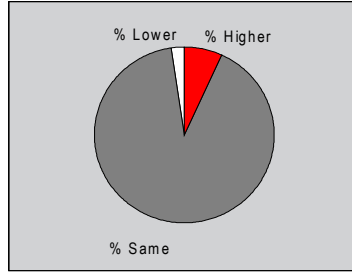
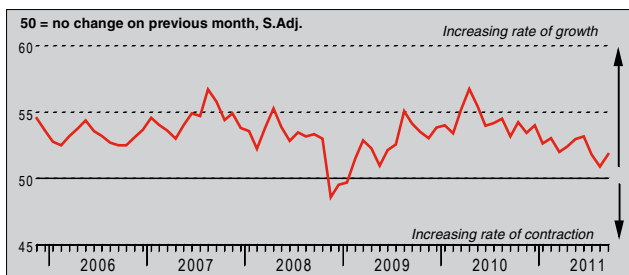
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Despite a solid rise in new business, Chinese service sector firms continued to reduce their backlogs of work during September, suggesting that spare capacity persisted in the sector. Outstanding business levels have fallen continuously since May 2010. However, the rate at which backlogs were depleted was only marginal. The vast majority of panellists (almost 91%) reported that unfinished business remained unchanged since the preceding month.

Employment Index

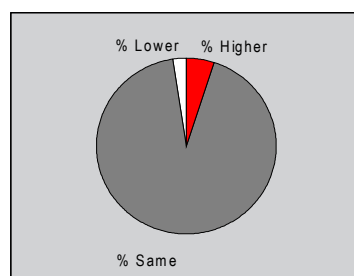
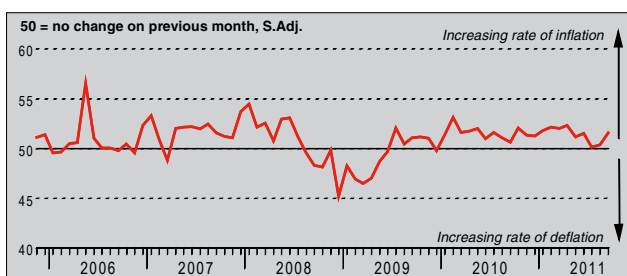
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employee numbers in the Chinese service sector rose again in September, extending the current period of growth to 32 months. Of those service providers that reported an increase in staffing levels (almost 7%), many attributed this to the need to expand capacity in response to higher intakes of new business. However, the pace at which firms added to their workforce numbers was only modest. Where a fall in staff levels was recorded, panellists mentioned employee resignations and, in some cases, company restructuring.

Prices Charged Index

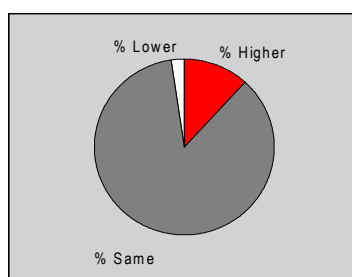
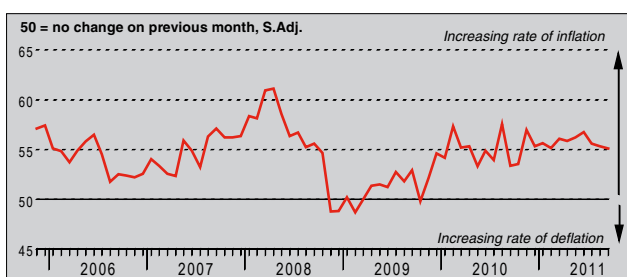
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output prices set by Chinese service providers continued to rise at the end of the third quarter, largely as a result of higher input costs. Some firms in the Transport & Storage sector reported increasing their tariffs in response to rising fuel costs. Despite accelerating to the fastest since April, the rate at which firms raised their output charges was only modest. Output prices have now risen for 21 months in succession, although rates of inflation have remained lacklustre throughout this period.

Input Prices Index

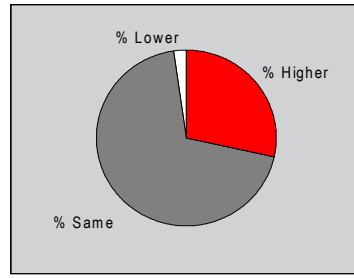
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input costs faced by Chinese service providers rose for the twenty-third successive month in September, with almost 12% of firms monitored by the survey reporting an increase since August. This compared to only 2% that reported a decline. Although marked, the rate of input price inflation was the slowest in almost a year. Survey respondents suggested that rising purchase costs reflected increased raw material prices, while there was also some mention of higher labour-related 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 remained confident about the one-year outlook for activity in September, with respondents attributing positive sentiment to expectations of further gains in new work and business expansion plans. However, the degree of optimism was the joint second-lowest since data were first compiled in November 2005. Firms operating in the Renting & Business Activities sector cited policies aimed at cooling the property sector as having dampened confidence.

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.

Warning

The intellectual property rights to the HSBC China Services *PMI*TM provided herein is owned by Markit Economics 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. *Purchasing Managers' Index*TM and *PMI*TM 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.