HSBC Purchasing Managers' Index™ 2012

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HSBC China Services PMI™

Chinese service sector activity and new orders both rise at below-trend rates

Key findings:

- Activity growth unmoved on November's three-month low
- Output charges down for first time since December 2009
- Business optimism dips to lowest on record

Chinese service providers reported another increase in business activity during December, although the pace of expansion remained only modest. Looking ahead, companies were the least optimistic about future activity levels since data were first compiled in November 2005. New order growth eased for the second successive month, while the rate of job creation was marginal. In response to competitive pressures, companies reduced their output charges on average, in spite of a continued increase in input costs.

After adjusting for seasonal factors, the headline 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 – posted 52.5 in December, unmoved on November's three-month low, a level indicative of a subdued rate of expansion in the context of historic data. The latest index reading was much lower than the long-run series average of 56.9.

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 lowest since the start of the series in November 2005. Service providers cited policies aimed at cooling the property sector as having dampened business confidence over the month.

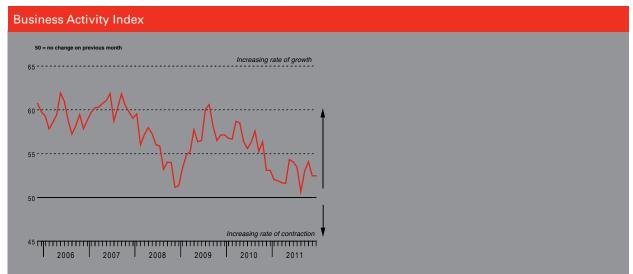
December data pointed to another rise in incoming new business received by Chinese service providers, with survey participants

citing new product developments as the main driver of growth. The rate of expansion in new orders was only modest, however, and the weakest in four months.

Companies reported a renewed decline in volumes of work-in-hand (but not yet completed) during December, although the rate of depletion was only marginal. Meanwhile, service providers added to their workforce numbers for the thirty-fifth month in succession. Panellists that recorded a rise in staffing levels mentioned a need to expand capacity. Nonetheless, the rate of jobs growth was modest, and the second-slowest since May 2009.

Prices charged by service providers in China fell during December, ending a near two-year period of inflation. However, the rate of output price discounting was marginal. Where a fall in average tariffs was recorded, this was linked by panellists to increased competition for new business. Survey participants that recorded a rise in selling prices attributed inflation to higher average costs.

Average input prices faced by Chinese service providers increased solidly during December. However, the rate of inflation moderated to a 25-month low, and was slower than the long-run trend for the survey. Higher average cost burdens have been recorded continuously since November 2009. According to survey respondents, input cost inflation reflected rising labour-related costs. There were also reports of increased raw material prices



The survey uses a methodology identical to the HSBC China Manufacturing PMI^{TM} . 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' IndexTM and PMITM 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.

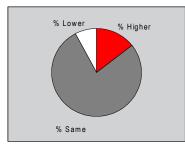




Business Activity Index

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.



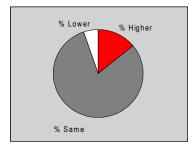


Chinese service providers reported another rise in business activity during December, with around 15% of the survey panel signalling an increase since the preceding month. This compared to 11% that registered a decline. However, the pace of growth was only modest, and much weaker than the long-run trend for the survey. Survey participants reported that rising new order levels had been the principal factor underpinning the latest increase in business activity.

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.



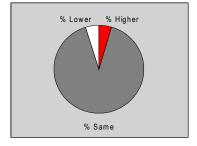


December data signalled a continued increase in new order volumes received by Chinese service providers, partly reflective of new product developments. The seasonally adjusted New Business Index was nonetheless consistent with only a modest rate of expansion in the context of historic data. Moreover, the latest index reading was the lowest since August. Where a reduction in new work was indicated, this was attributed by companies to unfavourable market conditions.

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.

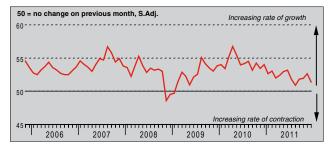


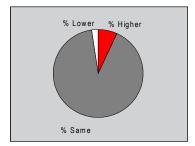


Data suggested an element of spare capacity at Chinese services companies during December, with the seasonally adjusted Outstanding Business Index signalling a renewed decline in volumes of work-in-hand (but not yet completed). This occurred despite a continued expansion of incoming new business. However, the pace of backlog depletion was only slight. The vast majority of survey participants (almost 90%) indicated no difference in unfinished work 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).



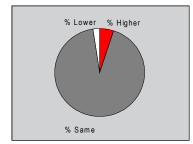


After adjusting for seasonal variation, the Employment Index posted above the neutral level of 50.0 for the thirty-fifth successive month during December, signalling a further rise in service sector employment. Anecdotal evidence suggested that job creation reflected the need to expand capacity in response to higher intakes of new business. However, employment growth eased to only a marginal rate, with the index posting its second-lowest reading since May 2009.

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



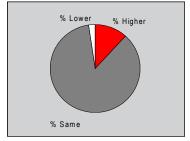


Prices charged by Chinese service providers fell during December, ending a near two-year period of higher average tariffs. Approximately 7% of survey participants recorded a fall in output charges from one month earlier, which the majority attributed to increased competition for new business. However, the seasonally adjusted Output Prices Index was at a level indicative of only a marginal rate of decline. Selling prices were reportedly left unchanged by the vast majority of panellists (almost 92%).

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.



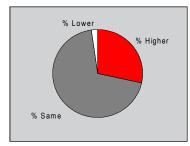


December data showed average input prices faced by service providers rising for the twenty-sixth consecutive month. Higher cost burdens were reported by around 8% of survey respondents, compared to 3% that recorded a fall. Despite easing to the slowest since November 2009, the rate of input price inflation was solid. There were reports that increased salary costs had placed upward pressure on firms' cost burdens. Some companies also mentioned higher raw material prices.

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 the one-year outlook for business activity in December. Almost 29% of respondents expect activity levels to be higher in 12 months' time, compared to 7% that anticipate a reduction. Panellists mentioned new product developments and business expansion plans. However, the degree of optimism was the lowest since data were first compiled in November 2005. Companies again cited policies aimed at cooling the property sector as having dampened business confidence.

Notes on the Data and Method of Presentation

The China Services PMITM 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 an '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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