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# HSBC China Services PMI™

Chinese service providers report sharpest expansion of business activity in four months

**Key findings:**

- Solid rise in service sector activity
- New business growth accelerates, but remains below-trend
- Business optimism remains weak in the context of historic data

February data highlighted a stronger expansion of Chinese service sector activity, mainly reflecting an acceleration in new business growth to an eight-month high. Despite this, service providers reported only a modest rate of job creation, and again expressed below-trend confidence about the short-term business outlook. On the price front, average tariffs were left broadly unchanged over the month, while average input costs increased at a solid rate.

After adjusting for seasonal factors, the headline Business Activity Index – which is based on a single question asking survey respondents to report on the actual change in business activity at their companies compared to one month ago – posted 53.9 in February, up from 52.5 in the previous month, signalling a solid expansion of Chinese service sector activity. Although the strongest in four months, the rate of growth remained much weaker than the long-run trend for the survey. Companies that reported a rise in services output widely attributed growth to greater inflows of new business.

Looking ahead, Chinese service providers maintained a high level of confidence with regard to future prospects. Around 32% of panellists anticipated growth of activity during the coming year, citing continued positive demand conditions, increased promotional activity and ongoing business expansion programmes. Although the strongest in four months, the overall degree of positive sentiment remained weak in the context of historic data.

The level of new business received by Chinese service providers

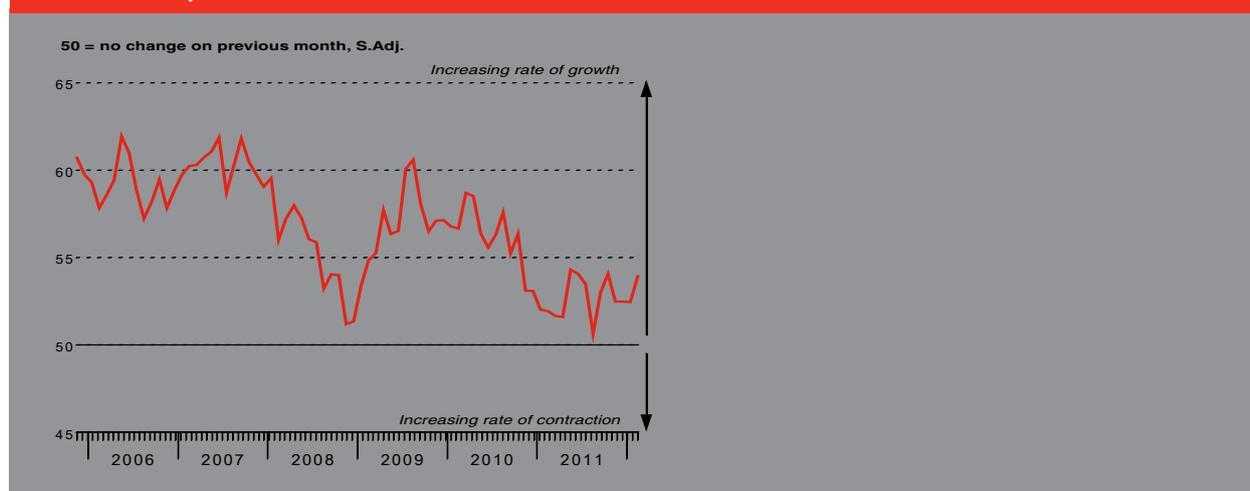
continued to rise in February, with the rate of expansion quickening since January to reach an eight-month high. The latest increase in new orders was nonetheless much slower than the long-run series average. Firms attributed higher intakes of new business to better market demand conditions.

Latest survey findings signalled that new business wins did little to alter the trend in outstanding business levels, which remained broadly stable over the month. The vast majority of survey participants (almost 92%) reported no difference in backlogs of work since the preceding month.

Greater inflows of new business contributed to another rise in staff numbers during the month. Planned business expansions were also reported to have driven staff recruitment. Employment growth in the sector has now been registered for 37 successive months. However, the rate of job creation was only modest in the latest survey period.

February data signalled a solid increase in average costs faced by Chinese service providers, with the pace of inflation reaching a three-month high. Higher input prices have now been recorded for 28 months in a row. According to survey respondents, increased fuel and labour-related costs were the main drivers of inflation. Despite higher average costs, companies left their output charges broadly unchanged compared to one month earlier. Where an increase in average tariffs was recorded, survey participants linked this to the need to pass on higher average costs to clients. Service providers that noted a fall in their output prices mentioned efforts to stimulate demand.

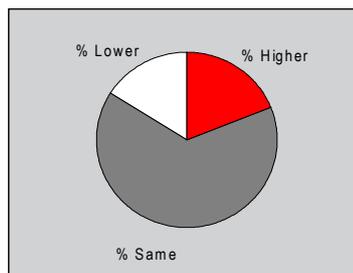
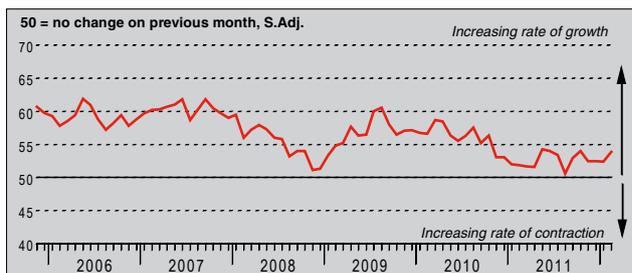
**Business Activity Index**



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

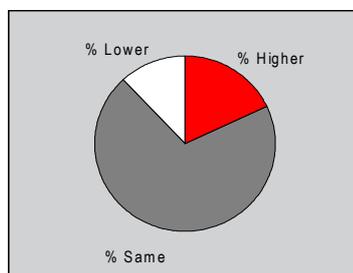
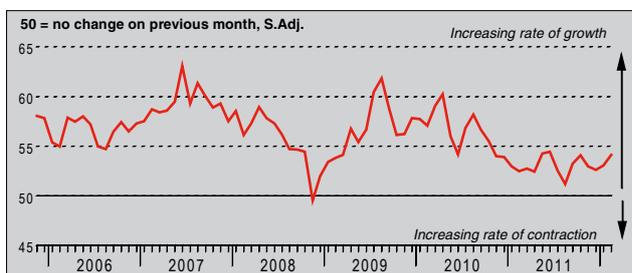
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



February data showed a continued expansion of Chinese service sector activity, with almost 18% of panellists signalling a rise since the preceding month. The pace of growth was solid, and the sharpest in four months. The latest seasonally adjusted Business Activity Index was nonetheless consistent with a below-trend expansion of services output. Companies that mentioned a rise in business activity often linked growth to higher intakes of new orders.

### New Business Index

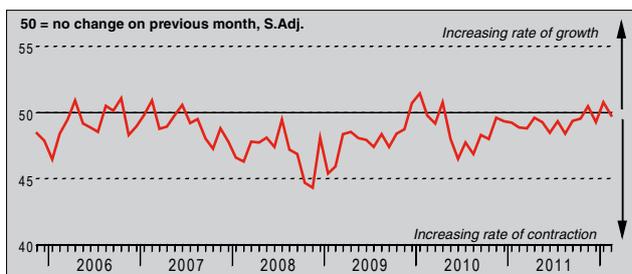
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



After adjusting for seasonal factors, the New Business Index remained above the neutral 50.0 threshold in February, signalling a solid expansion of incoming new orders placed at Chinese service providers. Despite accelerating to the fastest in eight months, the rate of expansion in new work was slower than the long-run trend for the survey. Anecdotal evidence provided by survey respondents suggested that new order growth reflected better market demand conditions.

### Outstanding Business Index

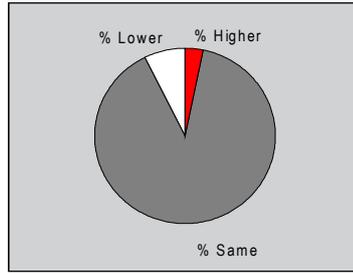
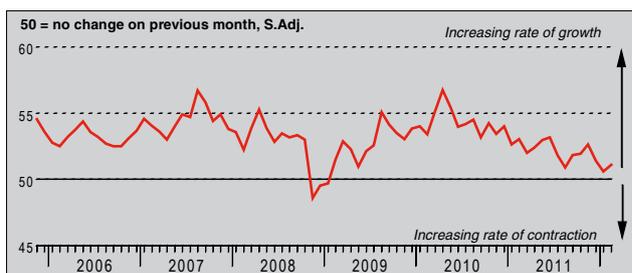
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlogs of work in the Chinese service sector were broadly unchanged during the month, with the vast majority of panellists (almost 92%) signalling no difference in volumes of work-in-hand (but not yet completed). The stagnation of backlogs of work occurred despite a stronger expansion of incoming new business.

### Employment Index

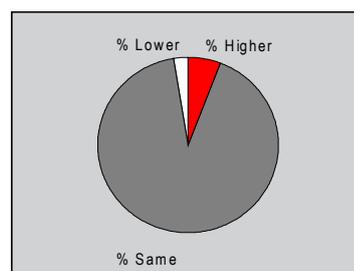
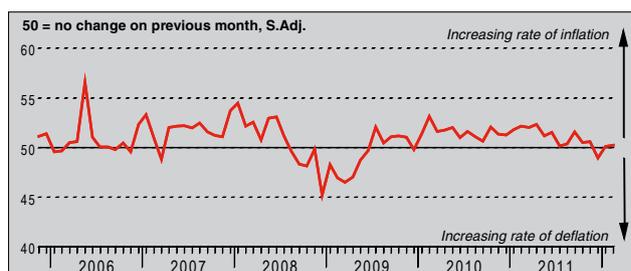
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Growth of the Chinese service sector workforce was recorded for the thirty-seventh successive month in February, as firms continued to take on new staff in response to rising workloads. Around 6% of respondents reported an increase in headcounts over the month, versus 5% that noted a reduction, with planned business expansions also reported to have driven staff recruitment. However, the pace of employment growth was only modest, and below the long-run trend for the survey.

## Prices Charged Index

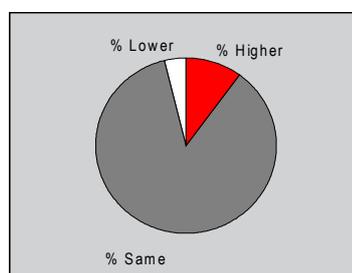
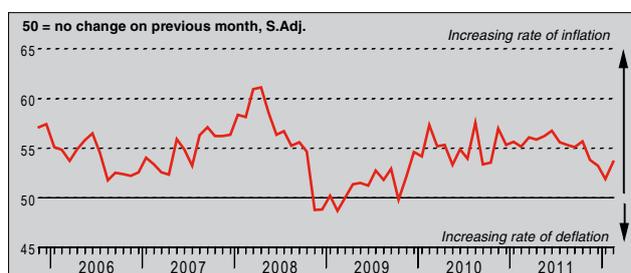
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Chinese service providers kept their average tariffs broadly unchanged since the preceding month, with the seasonally adjusted Prices Charged Index again posting slightly above the neutral 50.0 threshold in February. Exactly 93% of panellists signalled no change in output charges from one month ago. Survey participants that reported a rise in output charges linked this to the need to pass on higher average costs to clients. Where a fall in average tariffs was reported, panellists mentioned greater competition for new business.

## Input Prices Index

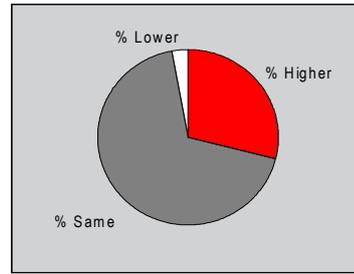
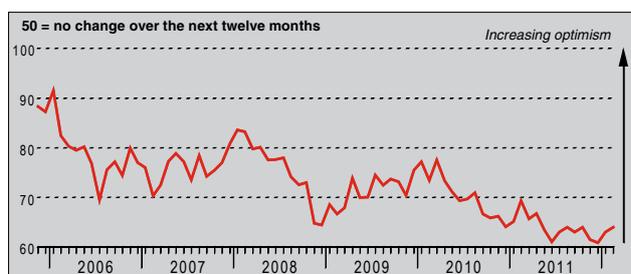
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Service providers in China again reported a rise in average input costs, with the seasonally adjusted Input Prices Index posting above the neutral level of 50.0 for the twenty-eighth month in succession. With around 9% of panellists signalling a rise in average costs, compared to 4% that noted a decline, the rate of input price inflation was solid. However, the latest increase was slower than the long-run series average. Higher fuel and labour-related costs were cited as the main drivers of inflation.

## 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 demand conditions, new product launches and the success of commercial activities. Despite rising to a four-month high, the Business Expectations Index again signalled a subdued degree of optimism in the context of historic data.

## Notes on the Data and Method of Presentation

The China Services *PMI*<sup>TM</sup> 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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