HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC China Services PMI™

Chinese service providers report solid expansion of business activity in March

Key findings:

- Output growth maintained, but below long-run trend
- Job creation eases to slowest in 38-month period of expansion
- Business confidence the highest in 11 months

Chinese service providers reported a further expansion of business activity in March, largely in response to higher intakes of new orders. Despite this, service sector employment grew at only a marginal rate, and backlogs of work were broadly unchanged since one month earlier. Looking ahead, companies again expressed below-trend confidence in the one-year business outlook, despite the index measuring expectations reaching an 11-month high. Meanwhile, service providers in China reported passing on higher input costs to clients via increased output charges.

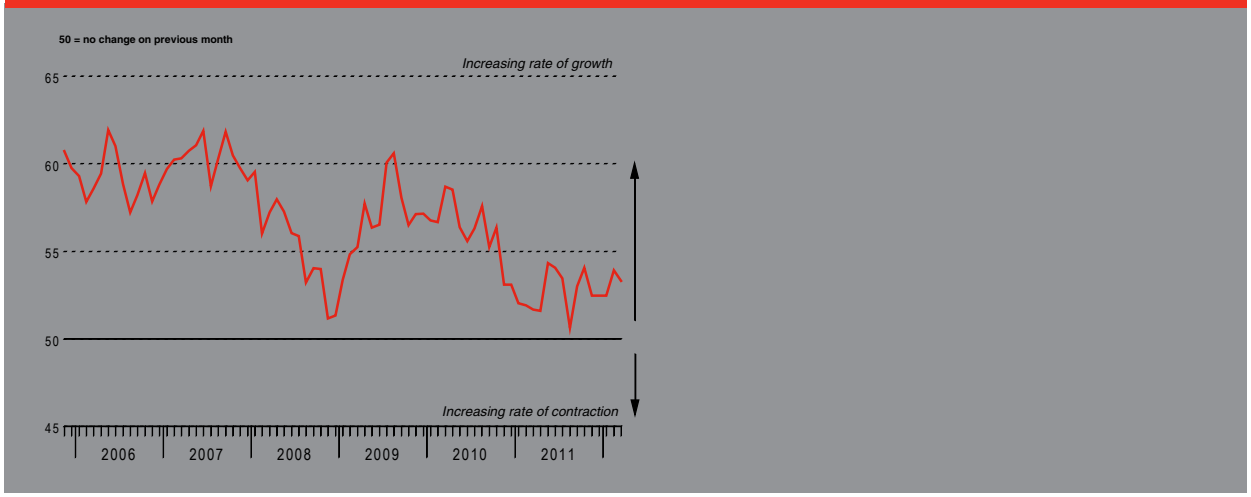
After adjusting for seasonal factors, the headline Business Activity Index – which is based on a single question asking survey respondents to report on the actual change in business activity at their companies compared to one month ago – posted 53.3 in March, down from 53.9 in February, signalling a solid expansion of business activity in the service sector. However, the rate of growth of services output was again below the long-run trend for the survey. Anecdotal evidence provided by respondents suggested that activity growth reflected greater inflows of new business. The success of promotional activities and better market conditions were also mentioned.

The level of new business placed at Chinese service providers rose again in March, extending the current period of growth to 40 months. Companies commented on firmer client demand and, in some cases, new product developments. Similar to the trend for activity, the rate of expansion was solid, but below the long-run series average. In spite of continued new business wins, companies raised their staff numbers at only a fractional rate in March. Jobs growth was the weakest in the current period of expansion, which now extends to 38 months, and was reportedly stifled by restructuring efforts. The slower rise in employee numbers also reflected limited pressure on operating capacity, with backlogs of work in the sector broadly unchanged from one month earlier.

The latest survey findings showed average costs faced by service providers rising further, with inflation holding broadly stable at a solid rate in March. According to survey participants, higher input prices reflected a combination of increased fuel, transportation and labour-related costs. Companies raised their output charges as a result, with the pace of inflation accelerating to the fastest in 25 months.

Chinese service sector firms reported a high level of optimism regarding the outlook for activity in one year's time. Confidence stemmed from plans for company expansion and expectations of economic growth in the wider Chinese economy. Despite improving to an 11-month high, the degree of optimism was weaker than the long-run trend for the survey. This in part reflected state-led policies aimed at cooling growth of the property sector.

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.

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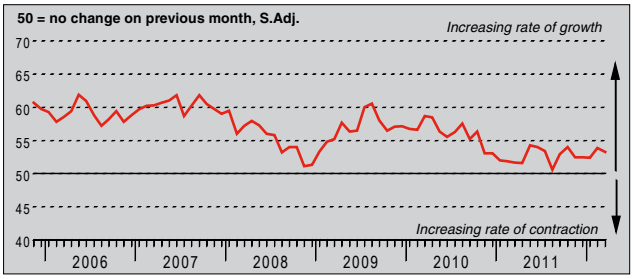
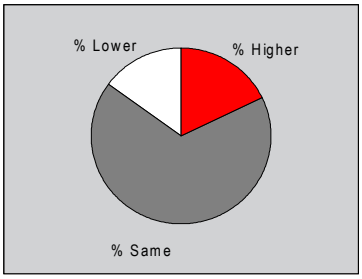
Business Activity Index

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.

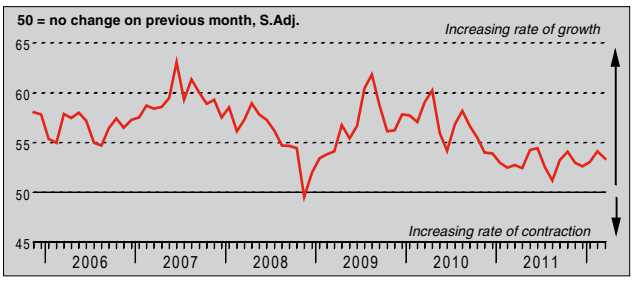


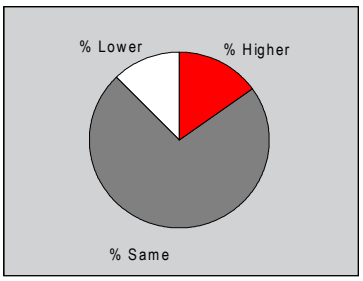


Chinese service providers reported a continued rise in business activity during March, with almost one-fifth of panellists signalling an increase from one month earlier. In contrast, around 9% indicated a reduction. The seasonally adjusted Business Activity Index signalled a solid rate of expansion in services output, although the latest reading was much lower than the long-run trend (56.7). According to survey participants, activity growth mainly reflected greater inflows of new business.

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.

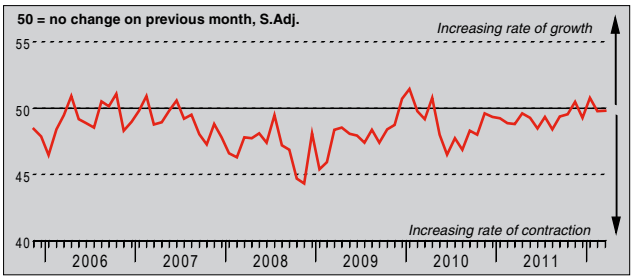


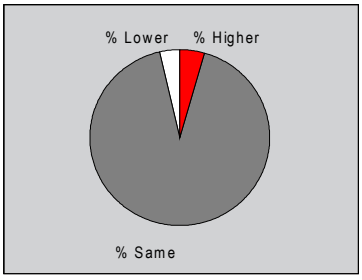


After adjusting for seasonal factors, the New Business Index posted above the 50.0 no change value for the fortieth month running in March, signalling a solid expansion of incoming new orders placed at Chinese service providers. March's index reading was nonetheless consistent with a below-trend pace of increase. Anecdotal evidence provided by survey respondents suggested that new order growth reflected better 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.

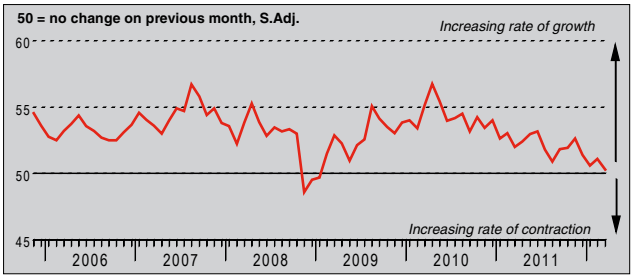


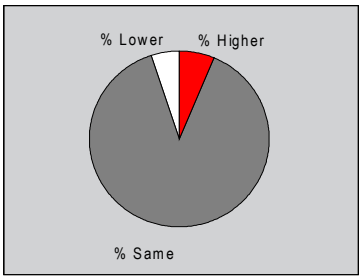


For the second month in succession, the Outstanding Business Index signalled a negligible decrease in volumes of work-in-hand (but not yet completed) at Chinese service providers' units. The vast majority of panellists (approximately 91%) indicated no change in backlogs of work since the preceding month. Survey participants mentioned having sufficient capacity at their units to deal with existing workloads, despite continued new business wins.

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).

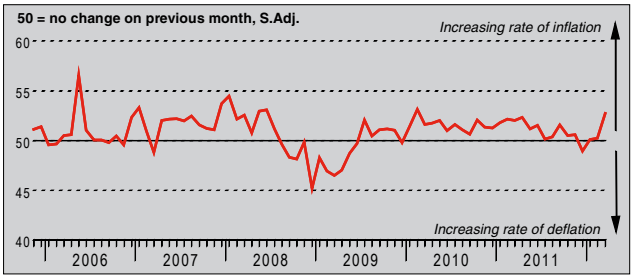


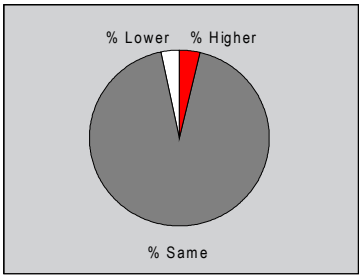


Service providers in China reported another rise in employee numbers during March. Of those panellists that recorded a rise in headcounts (around 6%), many commented on new business wins. The rate of job creation was marginal, however, and the weakest in the current 38-month period of growth. Moreover, the vast majority of survey respondents (almost 90%) indicated no difference in staffing levels since the preceding month. Where a decline in employment was recorded, this was often linked to workforce 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.

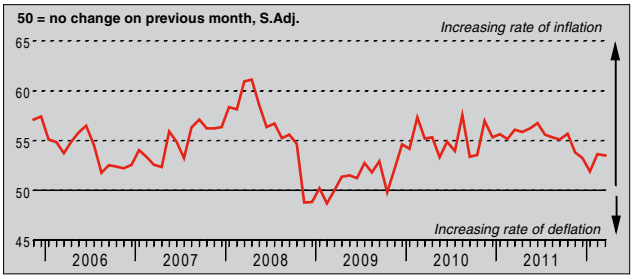


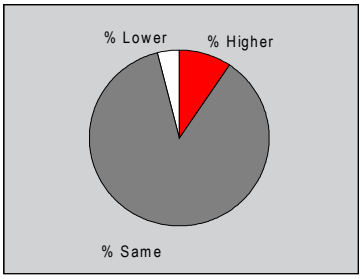


The seasonally adjusted Prices Charged Index posted above the neutral 50.0 threshold for the third month running in March, rising to its highest level since February 2010. The latest index reading signalled a solid increase in average tariffs that was stronger than the long-run trend for the survey. Of those survey participants that recorded a rise in selling prices from one month ago (around 6%), many linked this to the passing on of higher average costs to clients.

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.

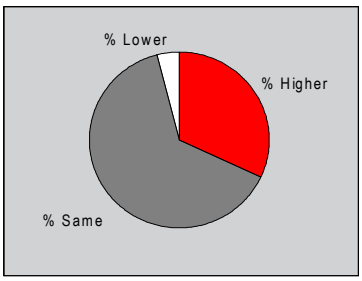




Average input costs faced by Chinese service providers rose for the twenty-ninth successive month in March. Almost 9% of firms reported that input costs had risen since February, compared to just 2% that recorded a decline. A number of firms indicated that staff costs had increased, while many panellists noted paying higher prices for fuel and raw materials. March's seasonally adjusted Input Prices Index reading signalled a solid rate of input cost inflation that was almost unchanged from that recorded one month earlier.

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 March, with almost 32% of panellists anticipating an increase in activity over the next 12 months. Positive sentiment was attributed by panellists to expectations of better demand conditions, new product launches and the success of commercial activities. Despite reaching an 11-month high, March's Business Expectations Index signalled a muted degree of optimism in the context of historic data.

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