

# HSBC China Services PMI™

Chinese service sector activity rises at strongest rate in six months

**Key findings:**

- Solid growth of services output registered
- Input cost inflation reaches highest since August 2010
- Business optimism the strongest for a year

Chinese service providers reported another rise in activity levels at their units, with the rate of expansion accelerating to the fastest in six months. Activity growth was supported by a continued rise in new business, which in turn contributed to another month of job creation. Meanwhile, input cost inflation strengthened amid reports of higher fuel and labour-related costs, while output charges were broadly unchanged on balance.

The headline seasonally adjusted Business Activity Index posted 54.1 in April, up from 53.3 in March, signalling a solid expansion of services output. Moreover, the latest index reading was the highest since October 2011. Where a rise in business activity was registered, panellists commonly linked growth to higher intakes of new business. Some survey participants also commented on a general improvement in market conditions.

April data signalled a further rise in new orders placed at Chinese service providers. Although below the long-run trend for the survey, the rate of new order growth was solid, and the sharpest in ten months. Companies commented on better demand conditions, new product launches and the success of promotional campaigns.

Despite a further rise in new orders, backlogs of work in the Chinese service sector fell marginally during April. The index measuring trends in outstanding business has now recorded a sub-50 reading in each of the past three months.

Staff numbers in the Chinese service sector rose during April, extending the current period of growth to 39 months. Although modest, the rate of job creation in the sector was the sharpest since November 2011. Companies generally added to their employee numbers in response to higher intakes of new orders.

Input price inflation in the Chinese service sector accelerated to a strong rate in April. Moreover, the latest rise in average costs was the sharpest since August 2010. Higher labour-related costs and increased prices paid for fuel were cited as the main drivers of inflation in the latest survey period.

Despite the latest rise in input prices, companies left their output charges broadly unchanged in April. Where a reduction in average tariffs was recorded, companies commented on the need to stimulate client demand. Some service sector firms also mentioned reducing charges in response to state regulation. This was particularly the case in the Financial Intermediation sector. Meanwhile, panellists that reported a rise in output prices, largely linked this to passing higher costs on to clients.

April data showed service sector firms again expressing confidence in the one-year business outlook, with the degree of optimism the strongest in 12 months. Reasons for positive sentiment included expectations of strong new order growth, better economic conditions and, in some cases, business expansion plans.

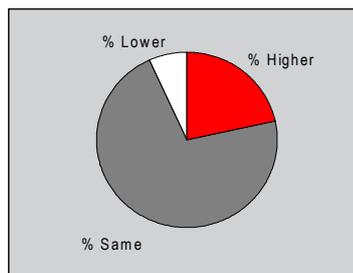
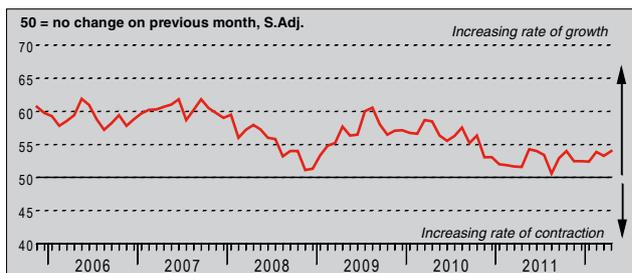
**Business Activity Index**



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

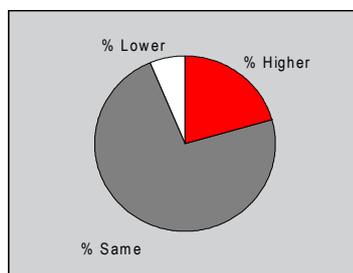
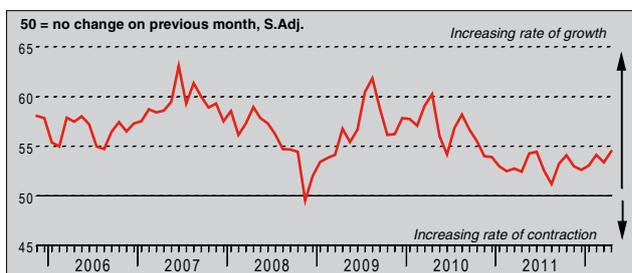
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Chinese service providers reported a solid expansion of output in April, with the seasonally adjusted Business Activity Index posting its highest reading in six months. However, the latest increase in business activity was weaker than the long-run trend for the survey. Anecdotal evidence provided by survey respondents suggested that growth of services output reflected new business wins. Some survey participants also commented on a general improvement in market conditions.

## New Business Index

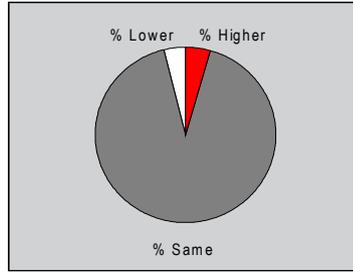
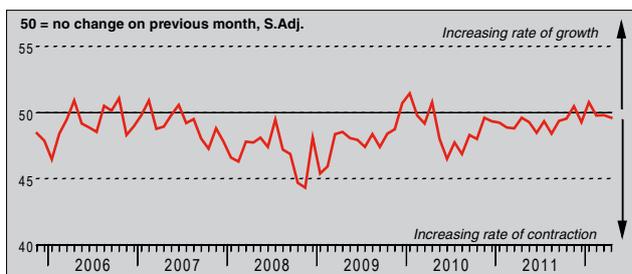
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



In line with the trend observed since December 2008, the level of incoming new business placed at Chinese service providers rose in April. Although below the long-run trend, the latest seasonally adjusted New Business Index reading pointed to the sharpest rate of new order growth in ten months. Where a rise in new work was signalled, this was commonly linked by panellists to better market demand. There were also reports of new product launches and the success of promotional campaigns.

## Outstanding Business Index

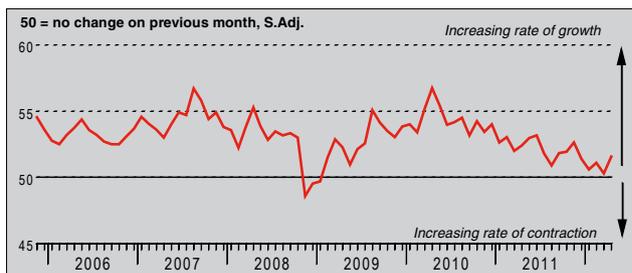
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlogs of work in the Chinese service sector decreased further during April, despite another month of new order growth. Nonetheless, the rate of backlog depletion remained marginal. The vast majority of panellists (approximately 92%) reported no difference in unfinished work from one month earlier. The seasonally adjusted Outstanding Business Index has now posted below the neutral level of 50.0, signalling contraction, for three months in a row.

## Employment Index

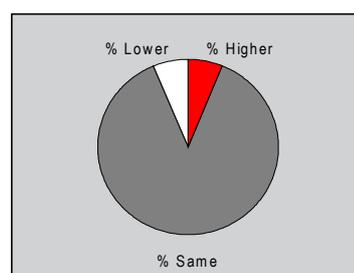
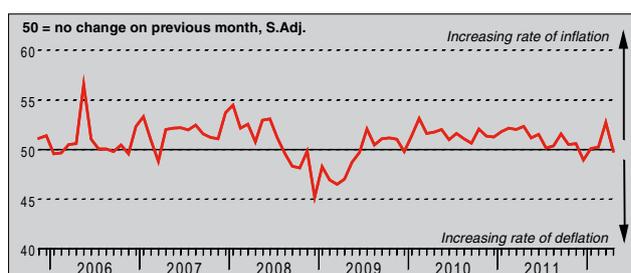
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Staff numbers in the Chinese service sector continued to rise in April, extending the trend observed since February 2009. Recruitment was predominantly attributed by survey respondents to increased workloads. Despite rising to a five-month high, the seasonally adjusted Employment Index pointed to only a modest rate of job creation. Of those companies that recorded a drop in employee numbers (around 5%), a number linked this to policies aimed at reducing overall costs.

## Prices Charged Index

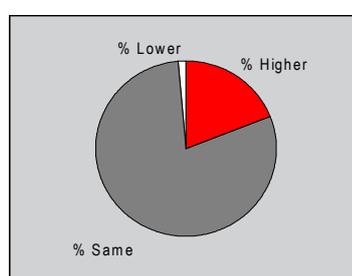
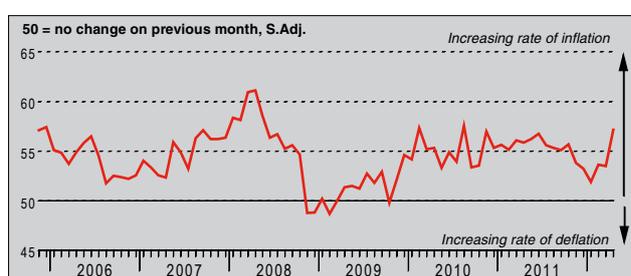
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output prices set by Chinese service providers fell at a negligible rate in April, with the seasonally adjusted Prices Charged Index posting below the neutral 50.0 threshold for the first time in 2012 to date. Survey participants commented that reduced output charges reflected efforts to stimulate client demand. Some companies also mentioned reducing average tariffs in line with state regulation. This was particularly the case in the Financial Intermediation sector. Where a rise in charges was signalled, this was linked by firms to the passing on of higher costs.

## Input Prices Index

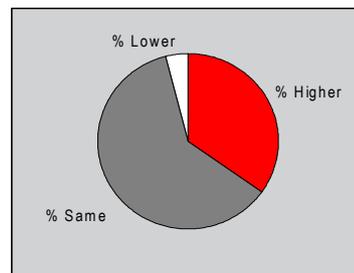
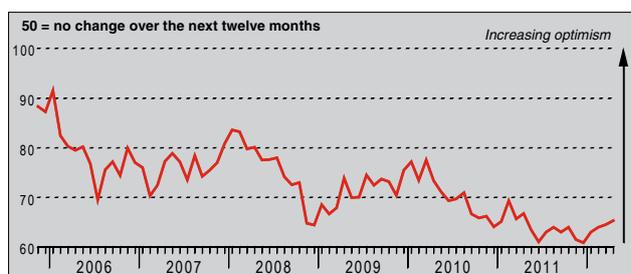
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input cost inflation in the Chinese service sector accelerated to a strong rate during April. The latest seasonally adjusted Input Prices Index reading pointed to the steepest increase in average costs since August 2010. The latest rise in input prices was the thirtieth in as many months. There were widespread reports from service providers that increased fuel prices and higher labour-related costs had pushed up their average cost burdens in the latest survey period.

## 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?



Business confidence in the Chinese service sector remained strong in April, with the Business Expectations Index posting its highest reading in 12 months. Around 35% of survey participants anticipate an increase in activity at their business unit during the next 12 months, compared with just 4% that predict a reduction. Reasons for optimism included signs of better economic conditions, expected new contract wins and business expansion plans.

## 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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