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# HSBC China Services PMI™

Activity growth eases to ten-month low in June

#### Key findings:

- · Weaker rise in business activity reflects moderation in new order growth
- Jobs growth eases to marginal rate
- Output charges down at greatest extent in 38 months

Chinese service sector firms reported a softer expansion of incoming new orders during June, with activity growth moving in step. Looking ahead, confidence in the one-year business outlook remained below-trend, with panellists expressing concerns regarding the future path of economic growth. Meanwhile, capacity remained little tested over the month, with backlogs of work falling further, which in turn contributed to a weakening of jobs growth. On the price front, input cost inflation eased to only a modest rate, while output charges decreased to the greatest extent in 38 months.

After adjusting for seasonal factors, the Business Activity Index remained above the 50.0 neutral threshold, posting 52.3, signalling a rise in business activity. The rate of expansion in services output was the weakest in ten months, however, and only modest. Where a rise in activity levels was signalled, companies commented on greater inflows of new business.

The pace of new order growth in China's service sector eased since the month before, and was only slight. Moreover, the index measuring trends in overall new work was at a ten-month low. Anecdotal evidence provided by survey respondents suggested that reduced new order intakes reflected muted demand conditions. The latest increase in new business was the forty-third in as many months.

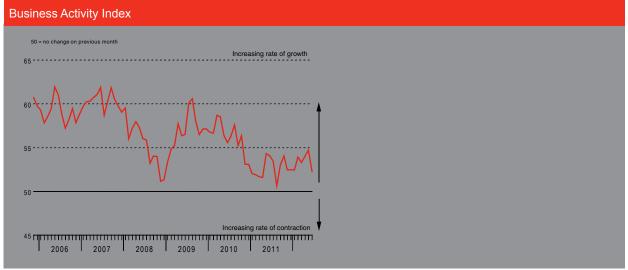
Largely in response to muted growth of new business, backlogs

of work in the Chinese service sector decreased for a fifth successive month during June. The rate of decline in work outstanding remained marginal, however.

Companies further added to their staff numbers in June, although the rate of jobs growth eased to only a marginal rate. Moreover, the latest increase in headcounts was the third-weakest in the current 41-month period of growth.

Average costs faced by service providers continued to rise in June, albeit marginally. In addition, the rate of input price inflation was the weakest in the current 32-month period of higher costs. Where a rise in input prices was signalled, survey respondents mentioned higher labour-related costs. Of those companies that noted a decrease in average costs, many linked this to reduced prices paid for fuel. Reduced input price pressures enabled companies to lower their average tariffs in June. Although modest, the pace of output price discounting was the sharpest in 38 months. There were also reports of increased competition for new business and client requests for lower charges.

Chinese service providers expressed continued optimism in the short-term business outlook in June, with positive sentiment linked by panellists to expectations of new business wins. However, the degree of optimism remained weak in the context of historic data. Companies cited economic uncertainty as having dampened business confidence.



The survey uses a methodology identical to the HSBC China Manufacturing  $PMl^{TM}$ . 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.  $Purchasing\ Managers'\ Index^TM$  and  $PMl^{TM}$  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.

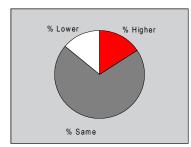




#### **Business Activity Index**

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.



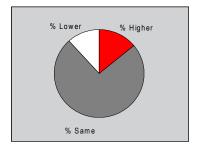


Business activity in the Chinese service sector continued to rise during June, with approximately 16% survey participants reporting an increase. This compared to 14% that noted a reduction. However, the seasonally adjusted Business Activity Index was at a level indicative of only a modest rate of expansion. Moreover, the latest index reading was the lowest in ten months. Where a rise in activity levels were signalled, companies commented on 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.



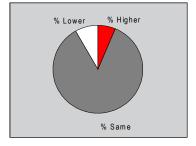


The volume of incoming new orders placed at Chinese service providers rose further during June, with the seasonally adjusted New Business Index posting above the neutral level of 50.0 for the forty-third month running. The latest index reading was nonetheless consistent with only a modest rate of increase in new work that was the slowest since August 2011. New order growth was limited by muted client demand, according to survey respondents.

# 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.



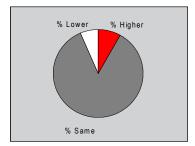


After adjusting for seasonal factors, the Outstanding Business Index posted below the neutral 50.0 threshold for the fifth month running in June, signalling a continued reduction in backlogs of work at service providers' units. This occurred despite a further rise in new orders. The rate of decline in unfinished work remained marginal, however, with the majority of panellists (around 85%) signalling no change in volumes of work-in-hand (but not completed) from one month before.

## **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).



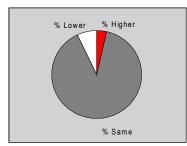


Jobs growth in China's service sector was sustained during June. Around 8% of companies signalled a rise in staff numbers from the month before, which the majority attributed to new business wins. The seasonally adjusted Employment Index has now registered above the neutral 50.0 threshold, signalling expansion, for 41 months in a row. However, the rate of job creation eased to a marginal rate that was the third-weakest in that sequence.

## 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



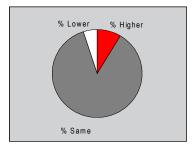


Prices charged by Chinese service providers decreased for the third successive month during June. The rate of output price discounting was only modest, however, with the majority of panellists (around 89%) signalling no change since the preceding month. The latest seasonally adjusted Prices Charged Index reading was nonetheless the lowest in 38 months. Companies commented on muted input price pressures, increased competition for new business and client requests for lower charges.

#### 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.



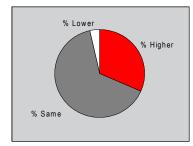


The rate of input price inflation in China's service sector eased for a second successive month during June, and was only modest overall. Moreover, the latest increase in average costs was weaker than the long-run trend for the survey. Where a rise in input prices was signalled, survey respondents mentioned higher labour-related costs. Of those companies that noted a decrease in average costs (exactly 5%), many linked this to reduced prices paid for fuel.

# 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 optimism among Chinese service providers remained positive during June. Around 32% of survey participants anticipate a rise in activity during the next twelve months, compared with 4% that expect a decrease. Service providers commented on expectations of new business wins and the success of marketing initiatives. That said, the degree of positive sentiment was the weakest in four months, and below the long-run trend for the survey. Companies cited economic uncertainty as having dampened business confidence.

## 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 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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