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HSBC China Services PMI™

Activity growth slips to one-year low in August

Key findings:

- · Modest expansion of activity signalled
- New order growth weakest since August 2011
- Business optimism ebbs

Growth of Chinese service sector activity moderated to a oneyear low during August, as new business increased at a sub-par rate. Consequently, capacity was little tested over the month, with outstanding business falling marginally. Looking ahead, service providers again expressed a historically muted degree of optimism regarding the near-term business outlook. Despite this, jobs growth accelerated since the month before. On the price front, average costs rose further during the month, while selling prices were little changed.

After adjusting for seasonal factors, the Business Activity Index posted 52.0 in August, down from 53.1 in July, signalling a continued expansion of service sector activity. However, the latest increase in output was the weakest for a year, and only modest. Companies commented on muted growth of incoming new business. The rate of expansion in new orders was the weakest for a year, largely reflective of subdued demand conditions.

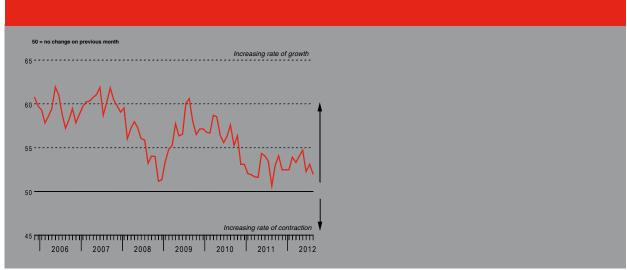
Sub-par new order growth meant that capacity in China's service sector was little tested during the month, with backlogs of work falling for the seventh month running. However, the rate of backlog depletion was only marginal, with the vast majority of panellists (approximately 89%) reporting no change since the month before.

Companies reported another month of employment growth in August. Where a rise in employment was recorded, panellists attributed this to greater inflows of new work and business expansion plans. Despite accelerating to the steepest since November of last year, the rate of job creation was slightly weaker than the long-run series average.

August data signalled a solid rise in average costs faced by Chinese service providers, extending the current period of inflation to 34 months. Anecdotal evidence provided by survey respondents suggested that input price inflation largely reflected higher labour-related costs. There were also reports of increased prices paid for a range of raw materials.

Meanwhile, selling prices were little changed since the month before. Where a reduction in output charges was reported, survey participants attributed this to increased competition for new business and the need to retain existing clients. Companies that reported a rise in average tariffs attributed inflation to higher average costs.

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. Survey respondents mentioned hopes that demand will strengthen over the coming year. There were also reports of new product developments and business expansion plans. However, the extent of positive sentiment was the lowest in eight months, and muted in the context of historical data.



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.

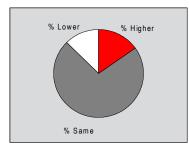




Business Activity Index

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.



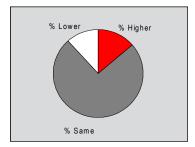


Business activity in the Chinese service sector continued to rise during August, with around 15% of survey respondents noting a rise from a month earlier. This compared with 13% that reported a decrease. However, the latest seasonally adjusted Business Activity Index reading was consistent was only a modest rate of expansion. Moreover, the latest increase in services output was the weakest for a year. Companies commented on muted growth of incoming 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.



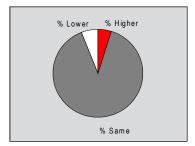


After adjusting for seasonal factors, the New Business Index posted above the neutral 50.0 threshold in August, signalling a further increase in new orders placed at Chinese service providers. The latest index reading was nonetheless at a level indicative of only a modest rate of expansion in new work that was the slowest for a year. Subdued client demand was cited by panellists as the main factor behind the sub-par expansion of incoming new business.

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.

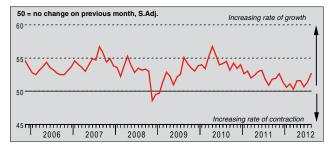


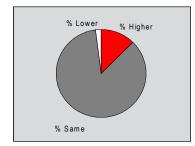


Unfinished business in the Chinese service sector decreased again during August. Nonetheless, the rate of backlog depletion was only marginal, with the vast majority of panellists (approximately 89%) reporting no change since the month before. The latest decline stretches the current period of contraction to seven months. Of those firms that signalled a reduction in work-in-hand (exactly 6%), most attributed this to muted growth 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).



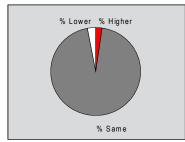


Staff numbers in the Chinese service sector rose during August, with the seasonally adjusted Employment Index posting above the neutral level of 50.0 for the forty-third month running. Anecdotal evidence provided by survey respondents suggested that jobs growth reflected greater inflows of new work and, in some cases, business expansion plans. Despite accelerating to the steepest since November of last year, the rate of job creation was slightly weaker than the long-run series average.

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.



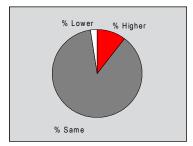


August data showed that output prices set by Chinese service sector firms were little changed since the month before, with almost 95% of survey respondents reporting no change. Where a fall in average tariffs was signalled, companies mentioned increased competition for new business. There were also reports of client requests for lower charges. Companies that reported a rise in selling prices attributed inflation to higher average 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.



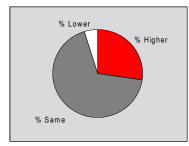


The rate of input cost inflation in China's service sector accelerated since the month before, and was broadly in line with the long-run trend for the survey. Moreover, the latest seasonally adjusted Input Prices Index reading was the highest in three months. Around 10% of survey respondents that registered a rise in average costs during August, compared with just 2% that recorded a decline. Higher average costs reflected increased prices paid for a range of raw materials and rising salary costs.

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 sector firms were confident that activity would be higher than present levels in one year's time, largely reflective of optimism regarding the economic outlook and expectations that client demand will strengthen in the coming year. Business expansion plans were also mentioned by a number of survey respondents. However, the degree of positive sentiment was the weakest in eight months, and muted in the context of historical data.

Notes on the Data and Method of Presentation

The China Services *PMI*TM 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 \times 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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