

# HSBC China Services PMI™

Weakest pace of business activity growth since August 2011

**Key findings:**

- New business increases at modest rate
- Employment expands at the quickest pace in 26 months
- Input price inflation remains strong, but output charges rise only marginally

December data signalled a rise in business activity in China's service sector. New business also increased over the month, and at a modest pace. The level of work-in-hand at service sector firms fell again in the latest survey period, while employment levels rose at the quickest pace in over two years. On the price front, input costs continued to increase at a strong pace, with the rate of inflation unchanged from November. Output charges also rose, but only slightly.

After adjusting for seasonal factors, the headline Business Activity Index posted 51.7 in December, signalling a modest rate of expansion in service sector activity. However, the rate of growth had slowed from the previous month, with the index posting below November's index reading of 52.1. Moreover, it was the weakest rate of growth in 16 months. Anecdotal evidence suggested that the rise in business activity was linked to increased client demand.

New business orders also rose in December. Growth of new business was slightly faster than in November, but remained modest overall. Nearly 13% of survey respondents signalled a higher level of new business in December, while less than 10% recorded a fall.

Backlogs of work fell for the eleventh successive month during December. The rate of depletion eased from November to a moderate pace, and was the slowest in three months. Just under 8% of panellists reporting a lower level of work-in-hand,

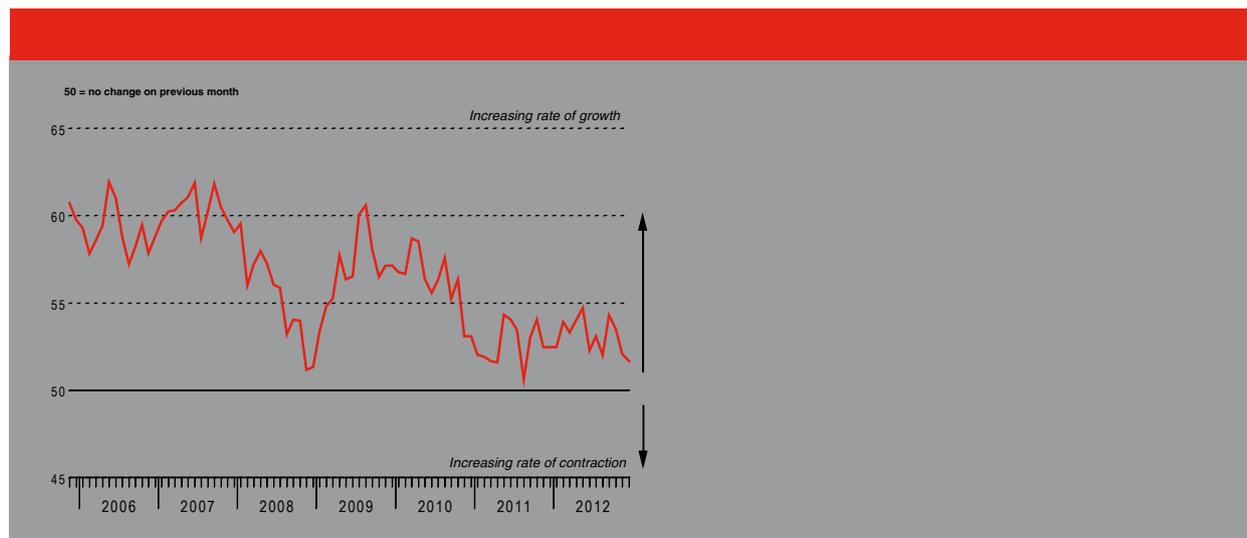
compared with exactly 4% that noted an increase.

Meanwhile, staffing levels rose at the quickest pace in more than two years, with over 7% of survey respondents recording higher workforce numbers. Anecdotal evidence suggested that the overall rise in employment was linked to an increased amount of new business.

Input costs rose further in December. The rate of input price inflation was strong and unchanged from November. Nearly 8% of panellists reported higher input costs, compared with just over 3% that registered a reduction. A number of firms attributed inflation to increased payroll numbers and rising purchasing costs.

Output charges also increased during December, following a slight fall in November. That said, the rate at which average tariffs increased was only marginal. Nearly 4% of respondents signalled higher output charges, but a majority (exactly 93%) reported no change.

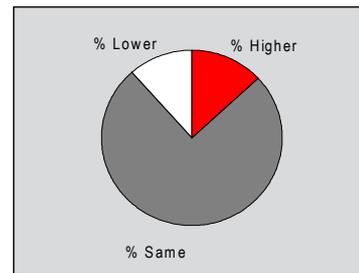
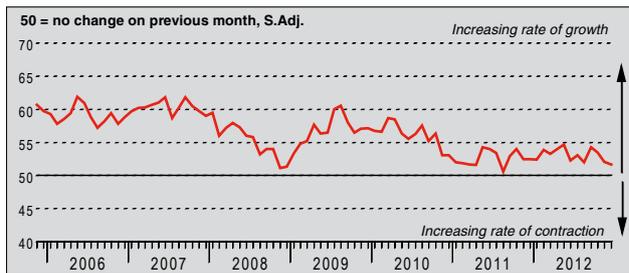
Chinese service providers remained optimistic in December regarding future business activity at their firms. Nearly a third of survey respondents expect activity to increase in 12 months' time, compared with just over 5% that anticipate a fall. Optimism was generally attributed to improving market conditions, which were also expected to boost the growth of new business in the coming year.



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

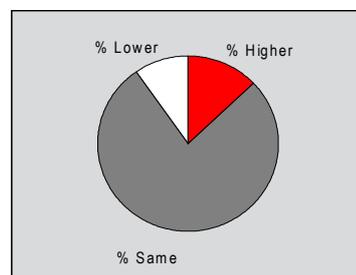
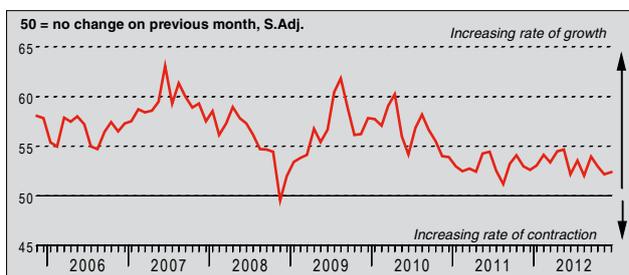
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index signalled a further expansion of business activity at service providers during December. The rate of expansion eased slightly from November, with the index falling to a 16-month low, but nonetheless remained moderate overall. Just over 13% of panellists recorded a higher level of business activity in the latest survey period, compared with approximately 12% that noted a fall. Anecdotal evidence suggested that the rise in activity was linked to increased order volumes.

### New Business Index

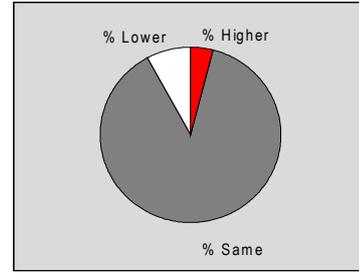
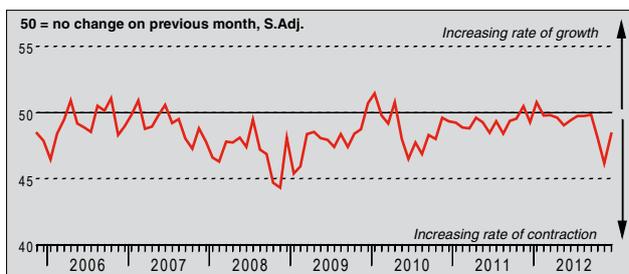
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The number of orders placed at service providers increased during December. After adjusting for seasonal factors, the New Business Index indicated that growth of new orders increased slightly from November, and remained modest overall. Nearly 13% of survey respondents reported an increased amount of new business in December, with fewer than 10% noting a reduction. The growth of new business was generally associated with increased client demand.

### Outstanding Business Index

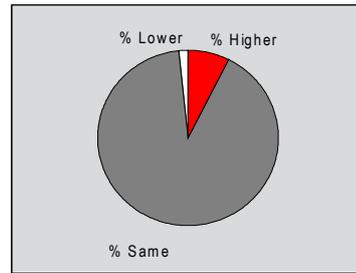
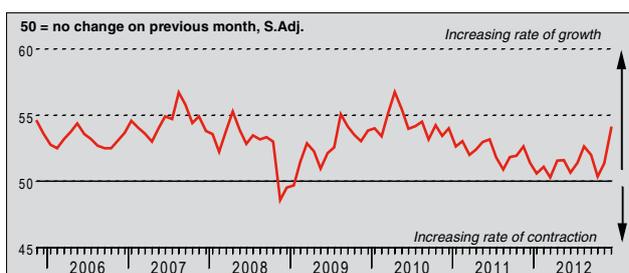
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The level of outstanding business at service providers fell for the eleventh consecutive month in December. After adjusting for seasonality, the rate of backlog depletion eased from November to a moderate pace. Nearly 8% of respondents signalled a lower amount of work-in-hand, compared with exactly 4% that reported a rise. Panellists linked the reduction of backlogged work to spare capacity at some of their units.

### Employment Index

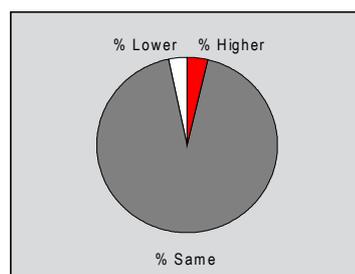
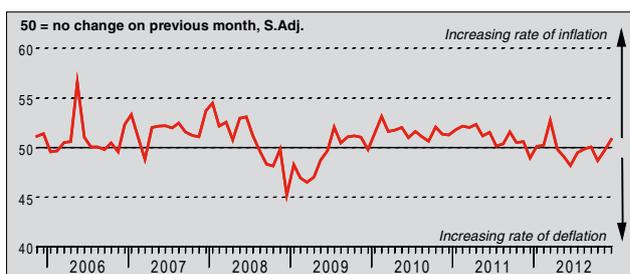
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment levels at service providers increased during December. The rate of job creation accelerated sharply from November and was the quickest in over two years. Over 7% of respondents reported higher payroll numbers in the latest survey, while less than 2% noted a reduction. A number of panellists mentioned that an increased amount of new business led to the expansion of workforce numbers in the latest survey period.

## Prices Charged Index

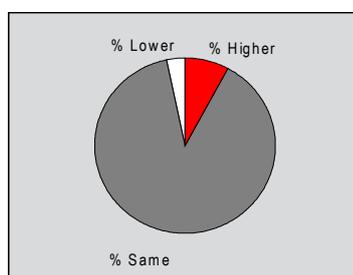
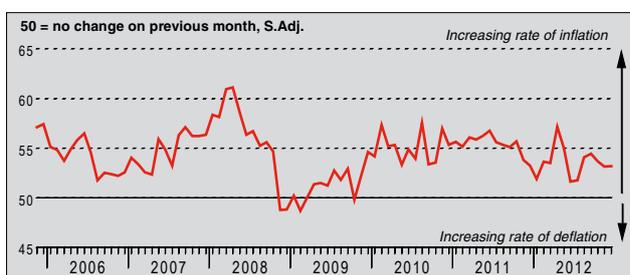
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average tariffs in the Chinese service sector increased during December, following a slight decrease in November. However, the pace at which output charges rose was only marginal, with fewer than 4% of survey respondents reporting higher tariffs. A number of panellists indicated that higher output charges reflected increased input costs.

## Input Prices Index

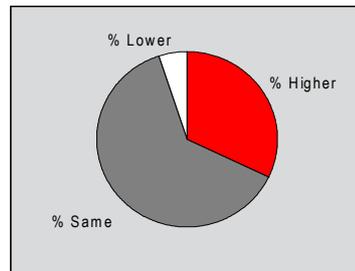
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input costs rose at a strong pace in December, with the rate of inflation unchanged from November. Nearly 8% of survey respondents recorded higher prices in the latest survey period, compared to just over 3% that signalled a reduction. Anecdotal evidence suggested the main drivers of inflation were increased payroll numbers and higher raw material 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 providers remained optimistic in December, with nearly a third of survey respondents expecting activity to increase in 12 months' time (while just over 5% expect it to decline). The degree of positive sentiment was broadly unchanged from November, and remained strong overall. A number of firms were optimistic towards future expansion as they expect both market conditions to continue to improve and stronger growth of new business.

## 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.

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