HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC China Services PMI™

Business activity increases at modest pace in February

Key findings:

- Both activity and new business growth slows
- Average input costs increase at solid pace
- Staff numbers continue to rise

Business activity in the Chinese service sector expanded at a modest pace in February. New business also rose modestly, but growth slowed from January's eight-month high. Backlogs of work continued to fall, while payroll numbers increased further. On the price front, input costs rose solidly and at the quickest rate in five months, while output charges were broadly unchanged. Chinese service providers meanwhile expressed optimism regarding the 12-month business outlook in February.

After adjusting for seasonal factors, particularly associated with the Spring Festival, the headline Business Activity Index posted 52.1 in February, signalling a modest rate of expansion in service sector activity. The rate of growth slowed from the previous month, with the index posting below January's reading of 54.0. Moreover, the index posted more than four points below the series average. The overall rise in business activity was generally associated with new projects.

New business also increased in February. However, the rate of growth eased from January and was modest. Exactly 13% of respondents recorded an increase, and was linked to stronger client demand.

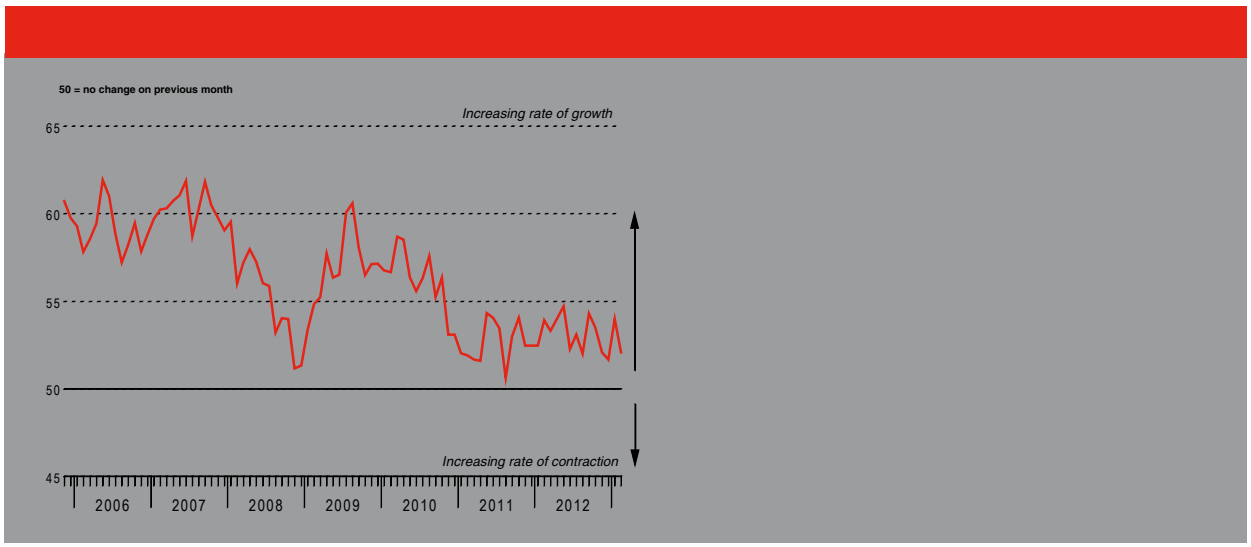
The level of outstanding business at service sector companies fell for the thirteenth successive month in February. After adjusting for seasonal factors, the rate of depletion quickened from January and was modest overall. The decline in work-in-hand was linked to quicker completion of current projects.

Employment levels in the Chinese service sector continued to increase in February. Staff numbers have now risen for over four consecutive years. That said, the rate of job creation slowed from January and was modest overall. A number of survey respondents mentioned hiring additional staff for new projects.

Output charges were broadly unchanged in February, following a slight decline in January. The seasonally adjusted Prices Charged Index signalled only a fractional increase in average tariffs in the latest survey period, with a majority of respondents (nearly 94%) reporting no change.

Average input costs at service sector firms continued to rise in February. The rate of inflation accelerated from January and was solid, with more than 8% of respondents noting increased input costs. Furthermore, it was the quickest rate of inflation in five months. Anecdotal evidence suggested higher purchasing prices largely drove inflation in the latest survey period.

The Business Expectations Index, which gauges the degree of confidence at service sector firms regarding the one-year business outlook, signalled further positive sentiment in February. That said, the degree of optimism declined slightly from January, but remained sharp overall. A number of survey respondents linked their optimism to improving economic conditions, which are expected to give a further boost to client demand.



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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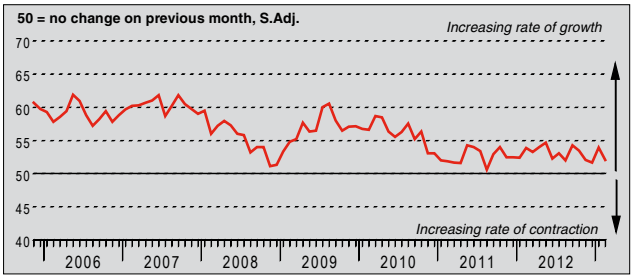
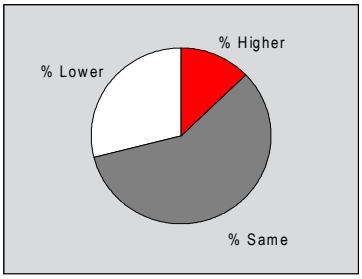
Business Activity Index

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.

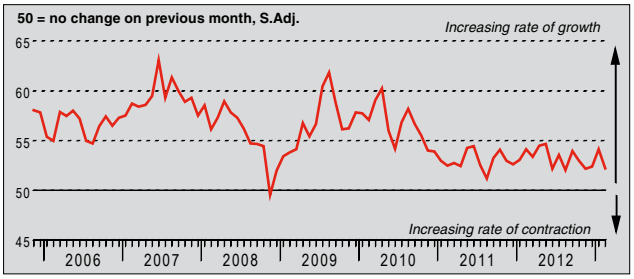


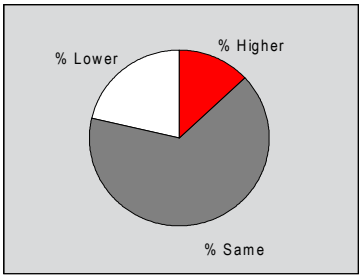


The seasonally adjusted Business Activity Index signalled an increased amount of business activity in the Chinese service sector in February. However, the rate of expansion eased from January and was modest overall, with less than 13% of panellists recording increased activity. Anecdotal evidence suggested that the rise reflected both new projects and new order growth.

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.

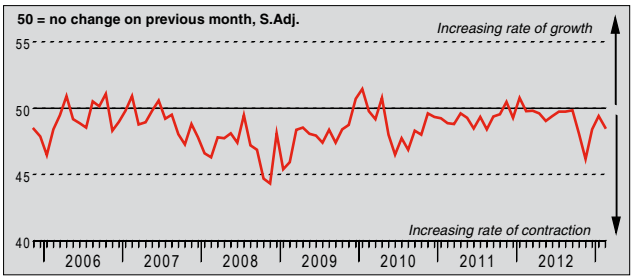


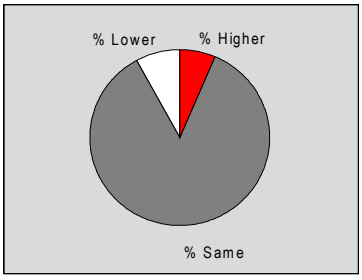


The amount of new business in the Chinese service sector increased in February. After adjusting for seasonal factors, the rate of growth was modest, having slowed from the previous month to a three-month low. Exactly 13% of respondents recorded an increased level of new business, with a number of panellists attributing growth to stronger 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.

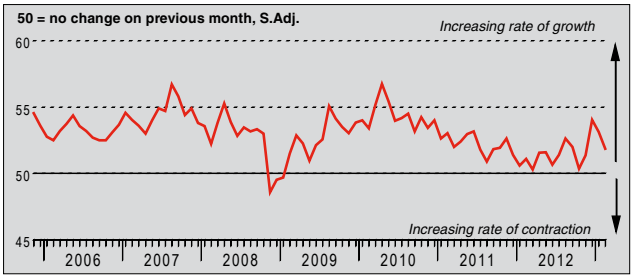


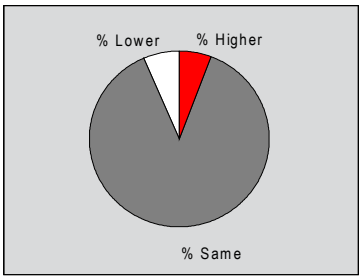


Backlogs of work at service sector firms decreased for the thirteenth month in a row in February. The seasonally adjusted Outstanding Business Index signalled that the rate of backlog depletion quickened from January to a modest pace, with exactly 8% of panellists reporting a reduction. The decline in work-in-hand was generally associated with faster completion of current projects.

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).

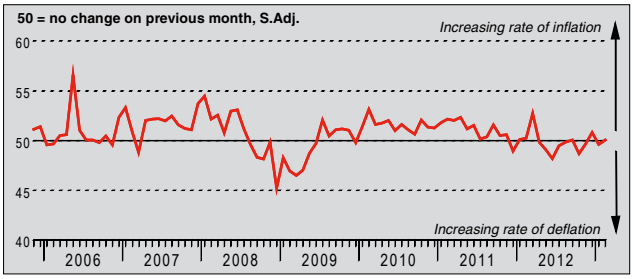


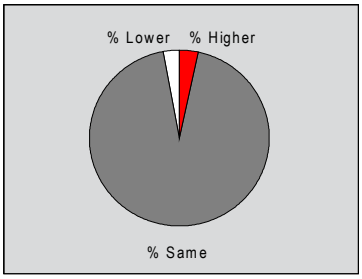


Staffing levels at service providers increased during February. Employment levels in the sector have now risen in each month since February 2009. After adjusting for seasonality, the rate of job creation eased from January and was modest overall. Nearly 6% of survey respondents reported increased workforce numbers, with a number of panellists mentioning that new projects had led to extra staff members being taken on.

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.

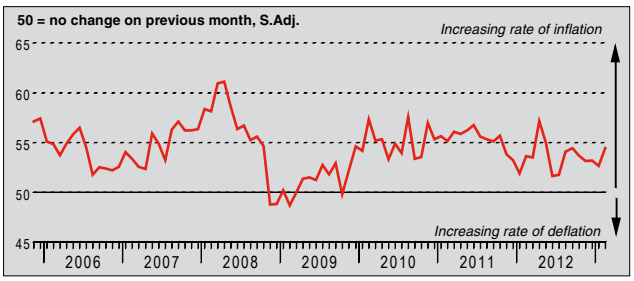


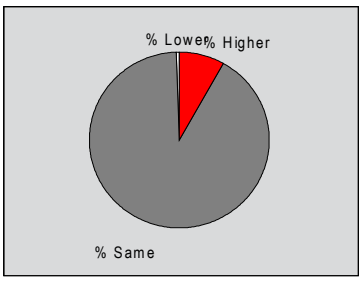


Average tariffs in the service sector were broadly unchanged in February, following a slight reduction in January. The seasonally adjusted Prices Charged Index posted just above the 50.0 neutral threshold, signalling a fractional increase in input prices. Just over 3% of survey respondents reported an increase, but a majority (nearly 94%) noted no change.

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.

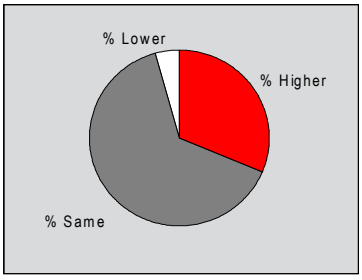




The seasonally adjusted Input Prices Index signalled a rise in average input costs for the fortieth month in a row in February. Moreover, the rate of inflation accelerated from that seen in the previous month to the fastest in five months. More than 8% of respondents recorded greater cost burdens in the latest survey period, largely linking this to higher purchasing prices.

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 February, with more than 31% of panellists expecting overall activity at their firms to increase in 12 months' time. The degree of optimism weakened slightly from January, but remained sharp overall. A number of survey respondents attributed their optimism to the expectation of greater client demand in the coming year.

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