Embargoed until: 09:45 (BEIJING), 3 April 2013

# HSBC China Services PMI™

Solid rise in business activity in March, with growth at six-month high

#### **Key findings:**

- Both activity and new business growth quickens from February
- Solid increase in input costs, while output charges rise only marginally
- Workforce numbers expand modestly

Latest PMI data signalled an increased level of business activity in the Chinese service sector during March. Furthermore, the rate of expansion accelerated from February to a solid pace. New business also expanded at a faster pace in March, rising solidly. Backlogs of work meanwhile declined, albeit marginally, as firms continued to expand their capacity by raising their staffing levels. On the price front, input cost inflation was solid, while output charges increased only slightly. Service sector firms were optimistic regarding the 12-month business outlook in March, with the degree of optimism the highest in ten months.

After adjusting for seasonal factors, the headline Business Activity Index posted 54.3 in March, signalling a solid rate of expansion in activity in the Chinese service sector. Moreover, the rate of growth quickened over the month, as signalled by the index rising above February's reading of 52.1. Anecdotal evidence attributed activity growth to increased client demand.

New business in the Chinese service sector also increased in March. Moreover, the rate of growth accelerated from that seen in the previous month to a solid pace. A number of respondents suggested improved market conditions had boosted new order volumes.

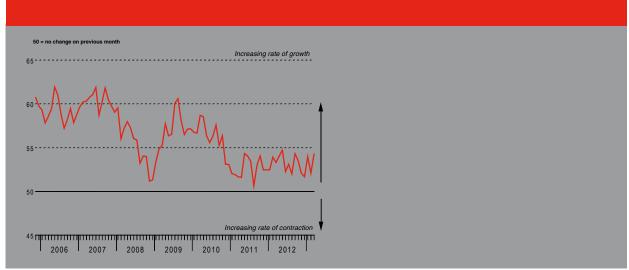
Backlogs of work declined for the fourteenth month in a row. The rate of depletion eased slightly from February and was marginal overall, with over 6% of panellists noting a lower level of work-in-

hand. Meanwhile, staffing levels increased in March. Employment in the service sector has now risen in each survey period since February 2009. Moreover, the rate of job creation quickened to a modest pace, with some respondents attributing payroll growth to increased activity.

March data signalled a further rise in average input costs faced by Chinese service providers. The rate of inflation was solid, despite having eased since February. Approximately 7% of respondents recorded higher input costs, with a number of panellists suggesting that increased salary bills and higher fuel prices largely drove the increase in cost burdens.

Firms passed on higher input costs to clients by raising their output charges in March. That said, the rate of increase was only slight, with less than 4% of panellists increasing their tariffs in the latest survey period.

Chinese service sector firms were confident regarding the 12-month business outlook in March, expecting activity to rise over the coming year. Moreover, the degree of optimism strengthened since February to the sharpest in ten months. Over 34% of respondents expect activity to grow over the next year, with optimism largely fuelled by forecasts of increased order volumes and improving market conditions.



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

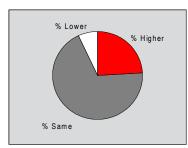




# **Business Activity Index**

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.



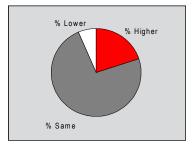


Chinese service providers signalled an increased level of business activity during March. The seasonally adjusted Business Activity Index posted above February's reading to indicate a solid rate of growth. Furthermore, it was the quickest rate of expansion since last September. Increased services output was generally attributed to 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.



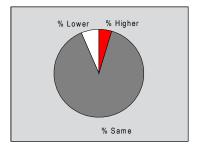


The total amount of new business in the Chinese service sector continued to rise in March. After adjusting for seasonal factors, the rate of growth accelerated from February to a solid pace, the second-fastest in six months. Anecdotal evidence linked growth to strengthened client demand and improved economic conditions.

## 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.





Volumes of outstanding business at Chinese service providers declined for the fourteenth successive month in March. After adjusting for seasonality, the rate of backlog depletion eased slightly since February and was marginal overall. Over 6% of respondents reported a reduction in work-in-hand, with some panellists mentioning that backlogs were reduced to free up capacity for 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).



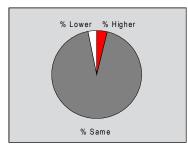


The seasonally adjusted Employment Index signalled an expansion of workforce numbers in the Chinese service sector in March. Staffing levels have now increased in each survey period since February 2009. The rate of job creation quickened over the month but, although modest, remained slower than the long-run series average. A number of survey respondents linked payroll growth to increased activity.

## 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.



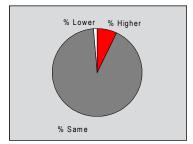


Average tariffs were raised for the second month in a row in March. After adjusting for seasonal factors, the rate of increase accelerated from February, but was marginal overall. Approximately 4% of panellists recorded higher output charges, with some panellists suggesting that selling prices were higher as greater input costs were passed on to clients.

#### 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 costs faced by Chinese service sector firms increased in March. Despite having eased since February, the rate of inflation was solid. Furthermore, over 7% of survey respondents reported higher input costs over the month, compared with less than 2% that saw a reduction. Anecdotal evidence linked increased costs to larger salary bills and higher fuel 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?





Service providers were optimistic towards the one-year business outlook in March, expecting business activity to increase in the next 12 months. Moreover, the Business Expectations index posted the strongest degree of optimism in ten months, with over 34% of panellists anticipating growth. Confidence in the service sector was generally attributed to expectations of increased order volumes, stemming from improving market conditions.

## 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

The intellectual property rights to the HSBC China Services PMI<sup>™</sup> provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. 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.