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HSBC China Services PMI™

Business activity expands at the weakest pace since August 2011

Key findings:

- Marginal rise in services output
- Staff numbers are cut for the first time since January 2009
- Business optimism weakest in seven-and-a-half year series history

April data signalled an increased amount of business activity in the Chinese service sector. However, the rate of expansion slowed to a marginal pace that was the weakest since August 2011. Similarly, new business growth eased to a 20-month low, with new orders increasing only modestly in April. The slower rates of activity and new business growth contributed to the first reduction in services employment since January 2009. That said, the rate of job losses was only marginal. Concurrently, service providers are the least optimistic towards the one-year business outlook since data collected began in November 2005.

After adjusting for seasonal factors, the HSBC China Services Business Activity Index posted 51.1 in April, signalling only a marginal increase in activity in the Chinese service sector. Moreover, down from 54.3 in March, the headline index indicated the slowest rate of expansion since August 2011. A number of respondents nonetheless attributed growth to improving market conditions, which have strengthened client demand.

Behind the slower rise in activity was weaker new business growth. The expansion of new orders was the slowest in 20 months, and modest overall. Service providers linked the increase to the development of new products, as well as recent promotions.

In April, staffing levels in the Chinese service sector decreased for the first time since January 2009. However, the rate of job

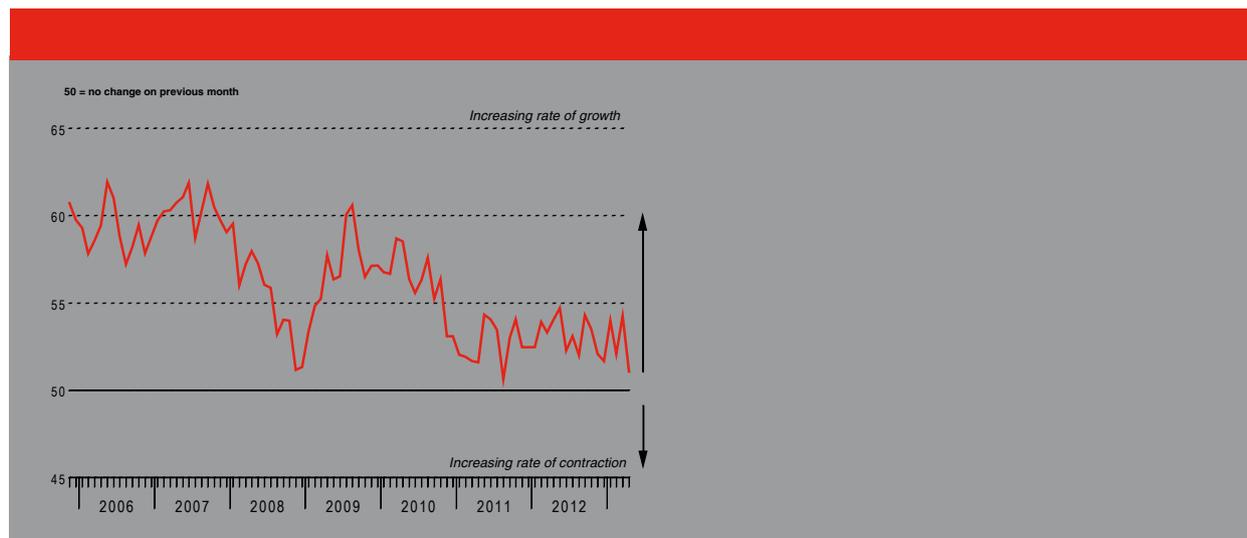
shedding was only slight, with a majority of panellists (over 91%) recording no change to payroll numbers. Anecdotal evidence largely linked job losses to company down-sizing and recent resignations.

Meanwhile, the volume of outstanding business declined for the fifteenth month running in April. The rate of backlog depletion was modest and unchanged from March. Anecdotal evidence suggested that the level of work-in-hand was reduced in order to increase capacity for incoming new orders.

Average input costs rose further during April. However, the rate of input price inflation was nonetheless the weakest in ten months. According to some respondents, higher salary costs largely drove inflation in the latest survey period.

Output charges meanwhile increased for the third successive month in April. That said, the rate of increase was only marginal and the same as in March. A number of firms suggested that tariffs were raised in order to pass on higher input costs to clients.

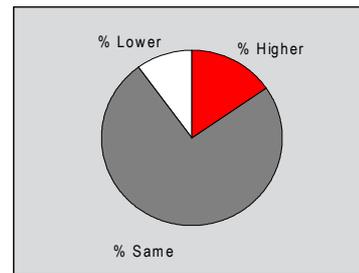
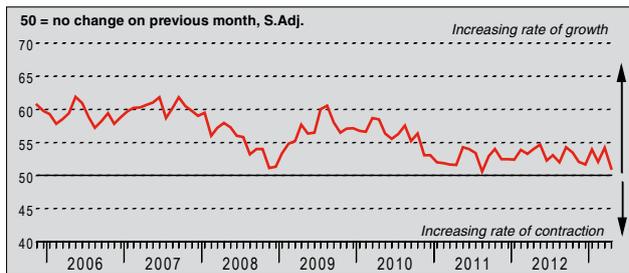
Service providers were confident in April that business activity would increase in 12 months' time. However, the degree of positive sentiment was the weakest since data collection began in November 2005. Over 27% of respondents expect activity to increase over the next year, with new projects and hopes of stronger client demand largely driving optimism.



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

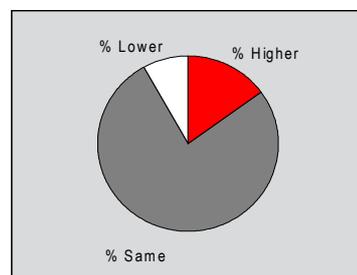
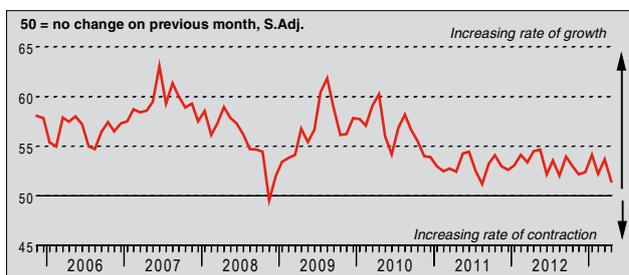
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



The seasonally adjusted Business Activity Index signalled an increased level of business activity in the Chinese service sector during April. That said, the rate of expansion eased to a marginal pace that was the weakest since August 2011. More than 15% of survey respondents reported an increased level of activity in the latest survey period, but a vast majority of panellists (nearly 75%) saw no change. Anecdotal evidence suggested that improving market conditions boosted activity during April.

New Business Index

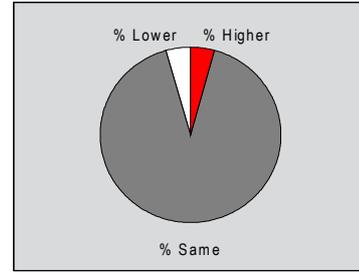
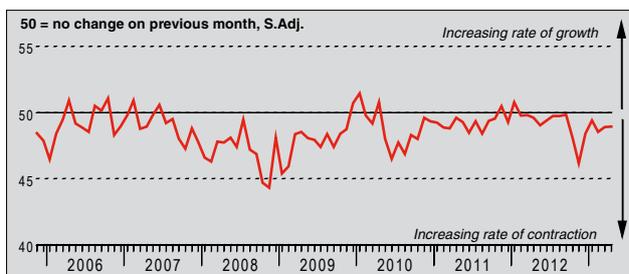
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The volume of new business placed at Chinese service providers increased during April. However, growth eased to a 20-month low, with new business expanding at only a modest pace. Exactly 15% of panellists recorded an increased volume of new orders in the latest survey period, compared with approximately 8% that noted a reduction. Some respondents attributed the rise in new business to the development of new products, as well as recent promotions.

Outstanding Business Index

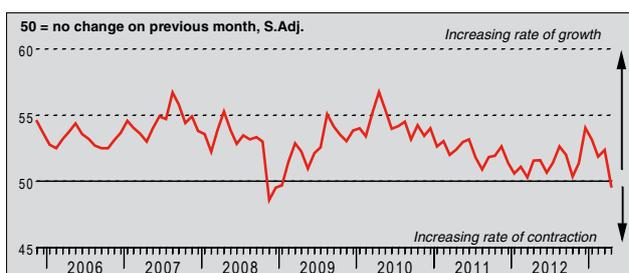
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The level of outstanding business at service sector firms declined for the fifteenth consecutive month in April. After adjusting for seasonal factors, the rate of backlog depletion was unchanged from that recorded in March, and remained marginal. According to a number of panellists, the level of work-in-hand was reduced in order to increase capacity for incoming new orders.

Employment Index

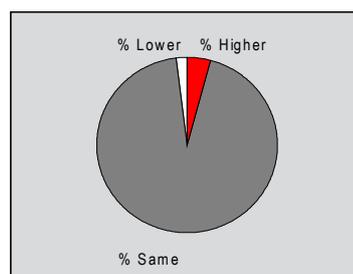
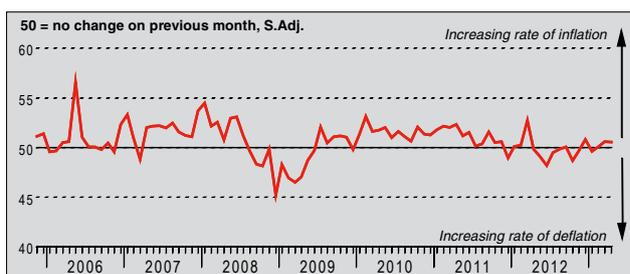
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Employment levels in the Chinese service sector decreased during April. Though the rate of job shedding was only marginal, it was the first time a net reduction in staff numbers had been recorded since January 2009. Job losses were linked by a number of respondents to company down-sizing and employee resignations.

Prices Charged Index

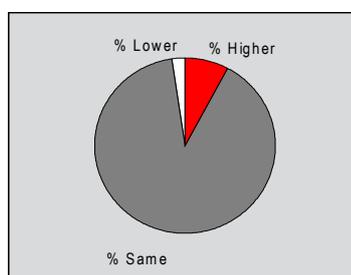
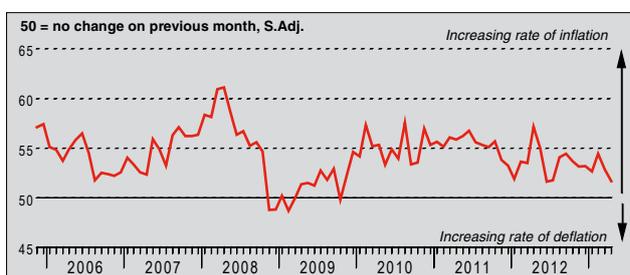
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Service providers raised their average tariffs for the third consecutive month in April. However, the rate of increase was unchanged from the previous month, and remained marginal overall. Just over 4% of panellists increased their output charges in the latest survey period, compared with exactly 2% that recorded a reduction. Some respondents mentioned that output charges were raised to pass on higher input costs to clients.

Input Prices Index

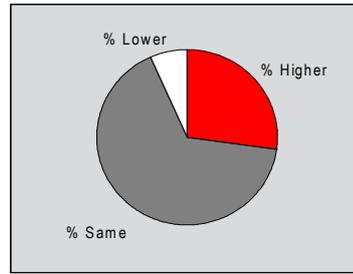
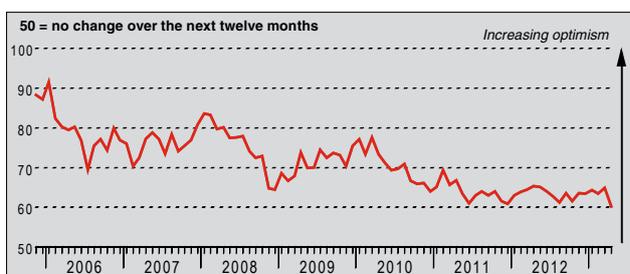
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input costs in the Chinese service sector increased during April. That said, the seasonally adjusted Input Prices Index signalled a modest rate of inflation that was the weakest in ten months. Nearly 8% of panellists reported higher operating costs, compared with just over 2% that saw a reduction. Anecdotal evidence suggested that increased salary costs largely drove inflation in the latest survey period.

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 confident towards the one-year business outlook in April, expecting business activity to increase in the next 12 months. Although consistent with a strong level of optimism, the Business Expectations Index posted its lowest reading since data collection began in November 2005, however. Over 27% of respondents anticipate an expansion of business activity in the next year, while less than 7% expect a contraction. Optimism was generally attributed to hopes of strengthening client demand and new projects.

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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