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## HSBC China Services PMI™

### Business activity growth remains only modest in May

#### Key findings:

- New business volumes increase at slowest pace since August 2011
- Input price inflation weakest in current 43-month sequence of inflation
- Business confidence remains historically low

Business activity in the Chinese service sector increased in May. That said, the rate of expansion was broadly unchanged from April and remained well below the long-run series average. Growth of new business was also historically low, with firms signalling only a modest rise in new orders. Concurrently, optimism towards the 12-month business outlook in the sector remained relatively weak. On a slightly more positive note, employment rose slightly, reversing a reduction one month previously.

After adjusting for seasonal factors, the HSBC China Services Business Activity Index posted 51.2 in May, up fractionally from 51.1 in April, and signalled only a modest increase in activity in the Chinese service sector. The headline index was the second-lowest since August 2011 and approximately five points below the long-run series average. Panellists nonetheless suggested that new order growth at some firms drove the overall expansion of output.

Similarly, growth in new business remained subdued in May, with service providers indicating only a modest increase in new orders. The corresponding index was little-changed from April, falling marginally to a 21-month low. Nonetheless, a number of firms attributed the increase in new business to the launch of new products.

Following a slight reduction in April, employment levels at service sector firms increased in May, albeit marginally. Anecdotal

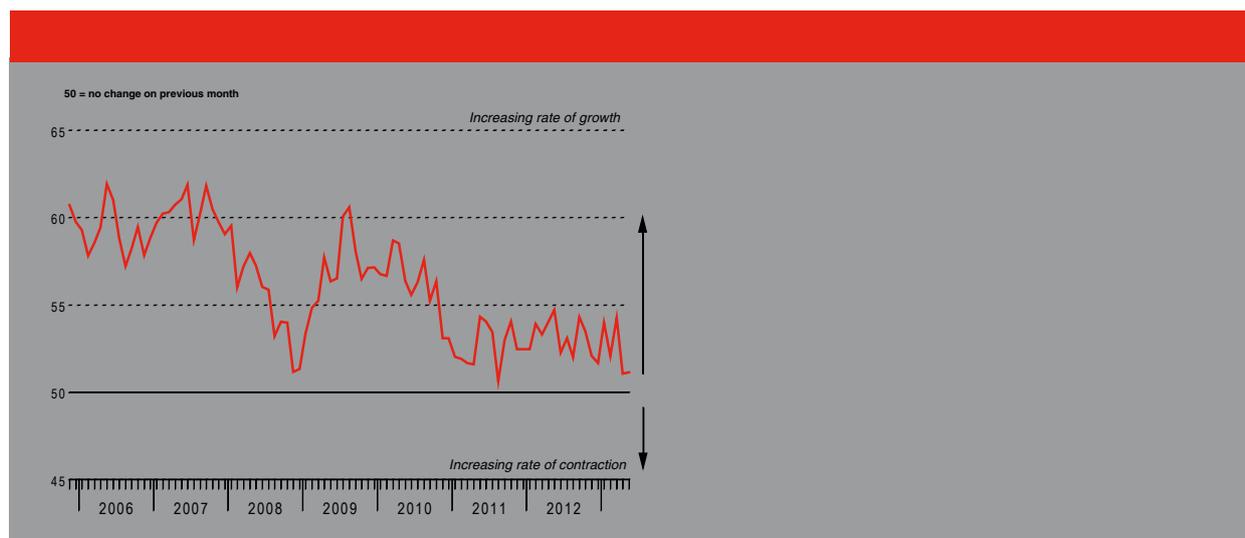
evidence suggested that payroll numbers increased in line with business activity growth at some firms.

Meanwhile, the volume of outstanding business was unchanged in the latest survey period, following 15 successive months of backlog depletion. The vast majority of respondents (over 92%) signalled that levels of backlogs of work were unchanged since April.

Average input costs faced by service providers continued to increase over the month. That said, the rate of inflation was the weakest in the current 43-month sequence. Higher salary costs were cited by a number of surveyed firms as a key driver of input price inflation.

Conversely, output charges fell for the first time in four months during May, albeit only slightly. A number of panellists suggested that tariffs were cut in response to competitive market pressures.

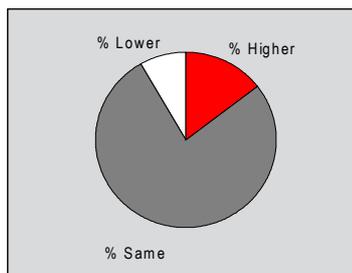
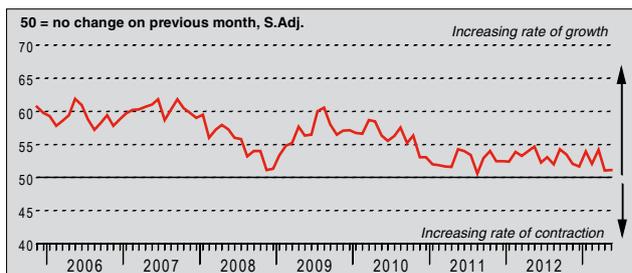
Service providers were confident that business activity would increase over the next 12 months. However, the degree of positive sentiment was relatively unchanged from April's survey low. Nearly 25% of respondents anticipate activity to expand over the next year, while just over 3% expect it to contract. Optimism was largely driven by expectations of improving market conditions and the launch of new projects, which were expected to boost client demand and order volumes over the coming months.



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

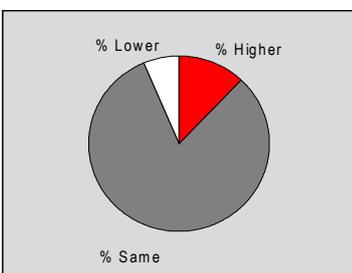
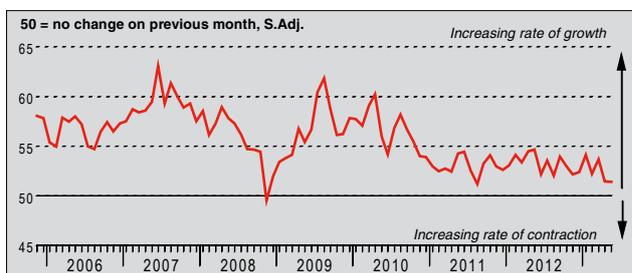
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Business activity in the Chinese service sector continued to increase during May. After adjusting for seasonal factors, however, the rate of growth was only slight and the second-weakest in 21 months. More than 14% of panellists saw business activity rise over the month, while just over 8% reported a reduction. Anecdotal evidence suggested that higher sales volumes helped to boost activity in the latest survey period.

### New Business Index

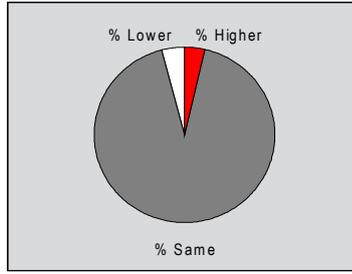
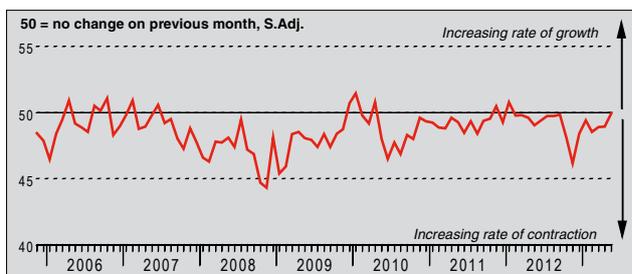
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index signalled an increased amount of new orders placed at service providers in May. That said, the rate of growth was modest and the weakest since August 2011. Approximately 12% of panellists recorded higher volumes of new work in the latest survey period, but the vast majority (over 81%) noted no change. New products were cited by a number of respondents as a key factor behind new business growth.

### Outstanding Business Index

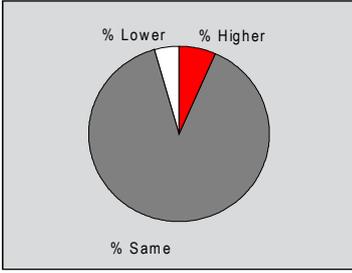
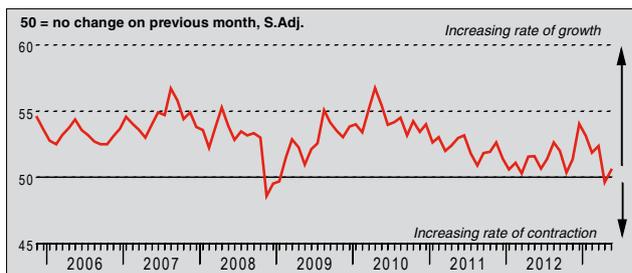
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Following a 15-month sequence of backlog depletion, the volume of outstanding business at service providers was unchanged in May. Over 92% of panellists signalled no change to their level of work-in-hand since April. While some respondents reported a rise in backlogged work due to growth in new business, other panellists mentioned that weak demand provided the opportunity to complete some outstanding business.

### Employment Index

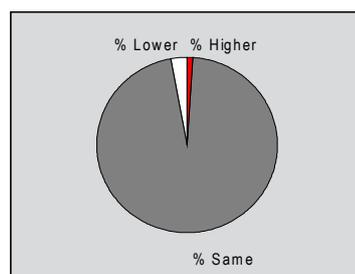
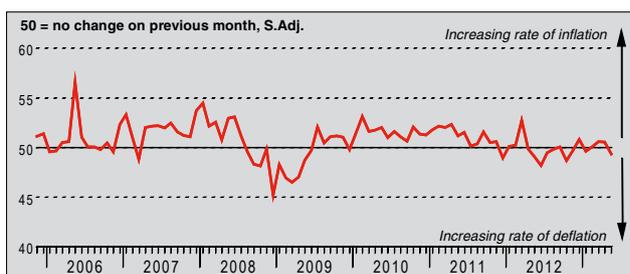
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Following a slight reduction in April, service providers increased their staffing levels during May. After adjusting for seasonal factors, however, the rate of job creation was only marginal, with a majority of respondents (approximately 89%) reporting no change to payroll numbers since April. Anecdotal evidence suggested that a number of firms hired additional staff in response to increased business activity.

## Prices Charged Index

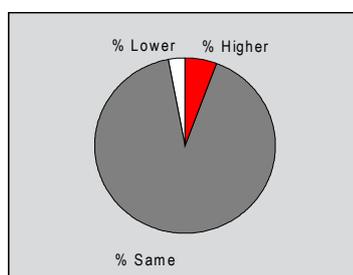
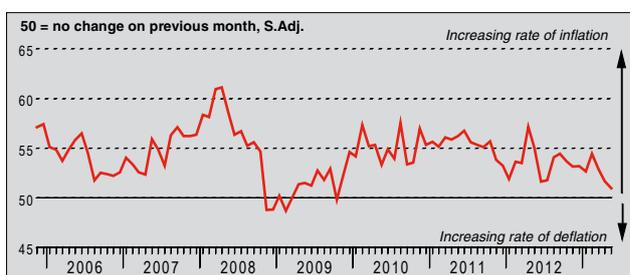
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Chinese service providers lowered their output charges for the first time in four months during May. That said, the seasonally adjusted Prices Charged Index signalled only a marginal reduction in average tariffs. Exactly 3% of panellists cut their output prices, linked to competitive market pressures, but the vast majority (exactly 96%) kept their tariffs unchanged from the previous month.

## Input Prices Index

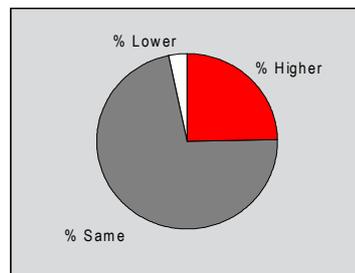
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input costs faced by service providers in China increased in May. However, the rate of increase eased to a marginal pace that was the weakest in the current 43-month sequence of inflation. Nearly 6% of survey respondents recorded higher operating costs (while exactly 3% saw a reduction), and generally attributed this to increased 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?



The Business Expectations Index signalled that service sector companies were optimistic in May, anticipating business activity to increase in 12 months' time. Although the degree of positive sentiment was strong, the index was relatively unchanged from the historical low recorded in April. Nearly one-in-four respondents were confident that activity would rise in one year's time, while just over 21% anticipate a reduction. Anecdotal evidence suggested that new projects and expectations of improving market conditions would boost activity in the next 12 months.

## 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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