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HSBC China Services PMI™

Slowest rate of new business growth since November 2008

Key findings:

- Business confidence hits new series-low
- Output charges are cut for the second month in a row, albeit marginally
- Modest pace of job creation despite slower intake of new business

Chinese service providers signalled a further increase in business activity in June. However, the rate of expansion was only modest, and substantially below the long-run series average. New orders displayed a similar trend and increased at the weakest pace in the current 55-month sequence of growth. Despite the slower expansion in new business, employment levels increased modestly over the month. Backlogs of work meanwhile declined, albeit marginally. Service providers cut their output charges, though only slightly, in an attempt to attract new business, even though input prices rose modestly and at a faster rate than in May.

After adjusting for seasonal factors, the HSBC China Services Business Activity Index posted 51.3 in June, up fractionally from 51.2 in May. Above the 50.0 no-change mark, the headline index signalled a further modest increase in business activity in the Chinese service sector. However, the rate of expansion was one of the weakest in the survey history, and well below the long-run series average. Nonetheless, growth in activity was largely attributed by panellists to new projects.

Total new orders increased for the fifty-fifth consecutive month in June. However, growth in new business eased for the third month running to its slowest in the current sequence.

Despite weaker-than-expected growth of new orders, employment levels increased for the second month in a row. Furthermore,

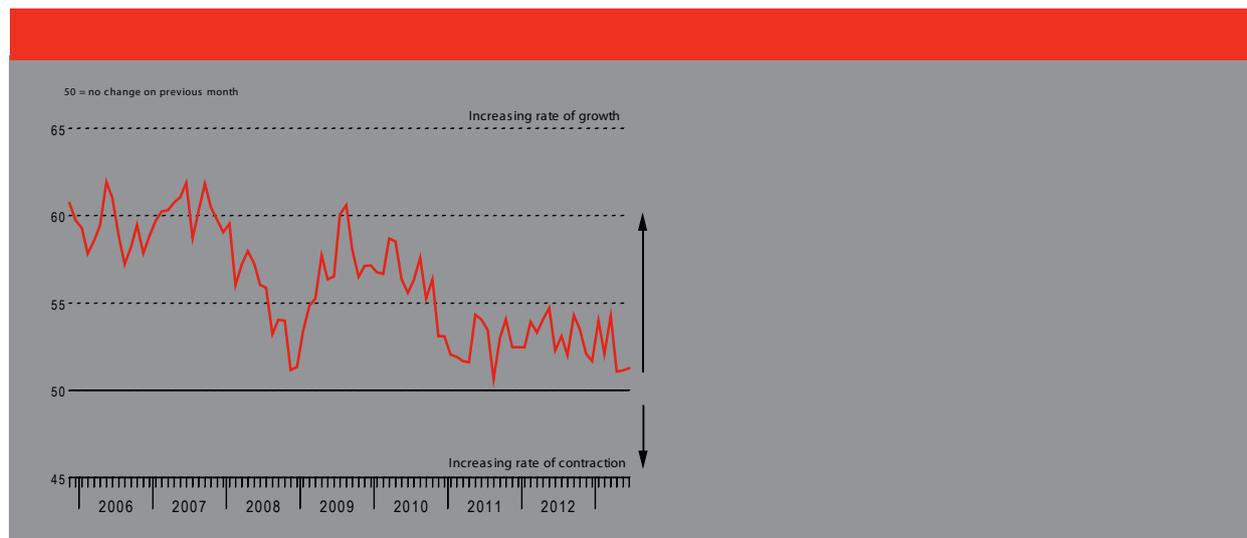
the rate of job creation accelerated to a modest pace, with approximately 8% of respondents hiring additional staff over the month. Anecdotal evidence suggested new projects drove the overall increase in workforce numbers.

Meanwhile, backlogs of work decreased in June, albeit marginally, after being unchanged in the previous month. According to anecdotal evidence, fewer new orders resulted in spare capacity at some firms.

June data signalled a further increase in input costs in the Chinese service sector. That being said, the rate of inflation was modest and substantially weaker than the historical average. A number of respondents mentioned that a combination of increased staffing costs and rents drove inflation higher.

Although average input costs rose in June, output charges set by service providers fell for the second successive month in an attempt to boost sales. However, the rate of discounting remained slight, with just over 3% of respondents lowering their tariffs.

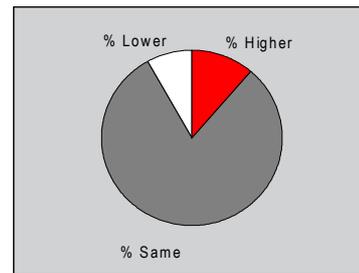
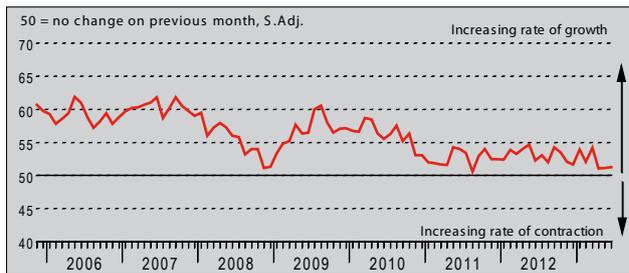
Service providers remained optimistic that activity would increase in 12 months' time in June. That said, the level of positive sentiment was the weakest since data collection began in late-2005. While some firms that were positive towards the future expect economic conditions to improve, others mentioned that fragile client demand was a key source of concern.



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

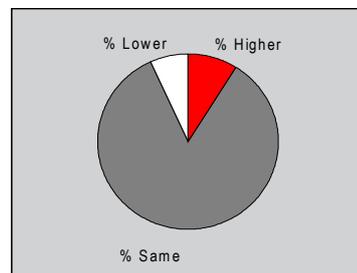
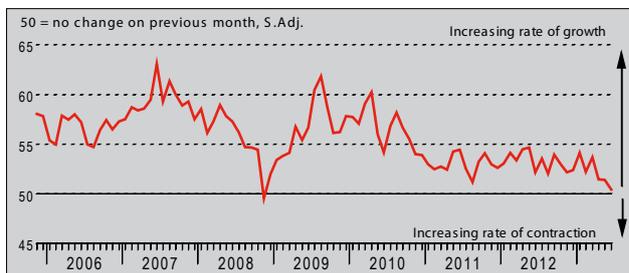
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Chinese service providers signalled a further increase in business activity during June. That said, the rate of expansion was only modest and one of the weakest since data collection began in late-2005. Just over 11% of respondents reported an increased level of business activity, compared with around 8% that noted a reduction. Anecdotal evidence suggested that activity was boosted by new projects at some service providers, while other firms that noted a reduced level of output cited weak client demand.

New Business Index

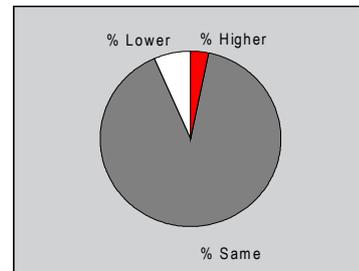
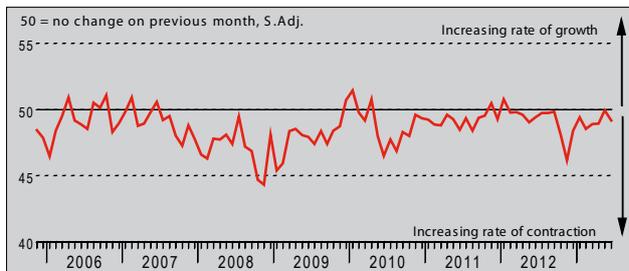
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index signalled a further expansion of order book volumes in June. However, the rate of increase eased to a marginal pace that was the weakest in the current 55-month sequence. Approximately 9% of panellists reported a rise in new business in the latest survey period, compared with nearly 7% that recorded a reduction. New order growth was generally attributed by panel members to the development of new products, though concerns over uncertain economic conditions persisted.

Outstanding Business Index

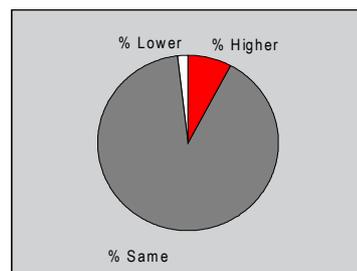
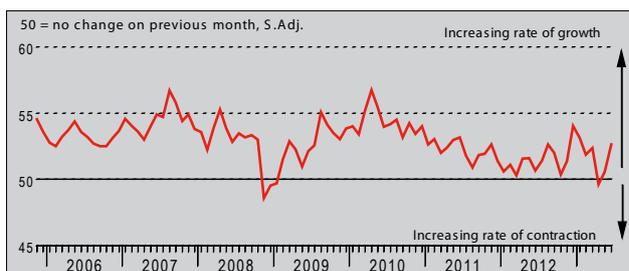
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The volume of outstanding business in the Chinese service sector declined in June, following an unchanged level of work-in-hand in May. A number of respondents mentioned that fewer new orders enabled them to reduce their level of work-in-hand in the latest survey period. That said, the rate of backlog depletion was only marginal, with the vast majority of panellists (over 90%) reporting no change to their level of outstanding business.

Employment Index

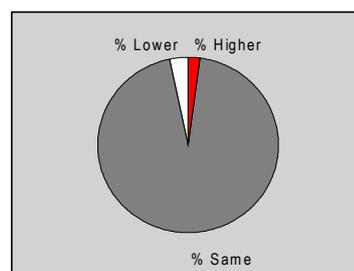
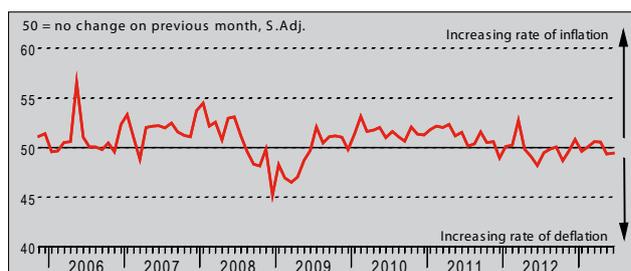
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Service providers increased their workforce numbers for the second month in a row during June. Furthermore, the rate of job creation accelerated to the quickest pace since January, with approximately 8% of respondents noting higher staffing levels. According to some firms, extra staff were recruited to work on new projects.

Prices Charged Index

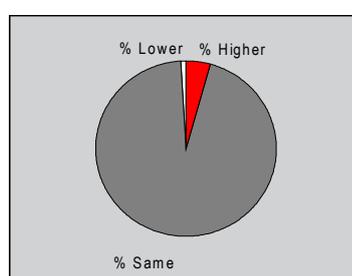
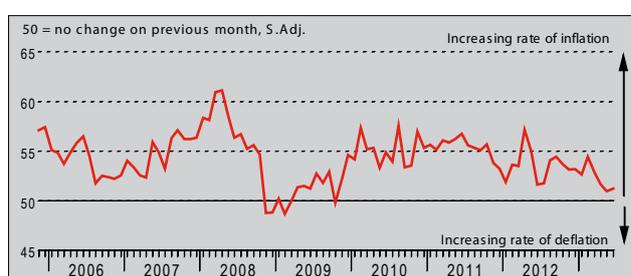
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output charges set by service providers declined for the second successive month in June. After adjusting for seasonality, the rate of discounting was broadly unchanged from May and only slight. Moreover, the vast majority of panellists (nearly 95%) saw no change to their average tariffs. A number of survey respondents suggested that firms had lowered their charges in an effort to boost client demand.

Input Prices Index

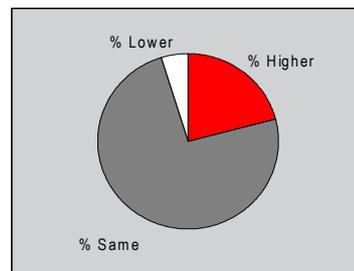
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



June data signalled a further increase in average input costs faced by Chinese service sector firms. Inflation was largely attributed to increased salary and rental costs. However, the overall rate of input price inflation was little-changed from May's modest pace and was one of the slowest in the series history, posting more than three points below the long-run average.

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 regarding the 12-month business outlook in June. However, the Business Expectations Index posted its weakest degree of positive sentiment in the survey history. Nonetheless, approximately one-in-five survey respondents expect activity to increase in the next year, while around 5% anticipate a contraction. According to anecdotal evidence, some firms linked optimism to improving economic conditions, while others expressed concern over fragile client demand in both domestic and global markets.

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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