

HSBC China Services PMI™

July data signals only a modest expansion of services activity

Key findings:

- Business confidence remains historically weak
- Growth in new business picks up to four-month high
- Output charges are cut again, despite a modest rise in operating costs

Latest data signalled a further increase in business activity in China's service sector. That said, the rate of expansion was only modest and unchanged from the previous month. Furthermore, growth remains substantially weaker than the historical average. In contrast, growth in new orders accelerated over the month and, though modest, was the quickest since March. Employment in the sector increased for the third month in a row, albeit marginally, while outstanding business declined slightly. Output charges were cut for the third successive month, despite a faster rate of input price inflation in the sector, with a number of firms lowering tariffs to attract new clients.

After adjusting for seasonal factors, the HSBC China Services Business Activity Index posted 51.3 in July, unchanged from June, and signalled a further modest increase in business activity in the Chinese service sector. However, the rate of expansion remained weak in the context of historical data, and signalled the longest period of only modest growth since data collection began in late-2005.

New orders also increased over the month. Furthermore, the rate of new order growth accelerated to its fastest since March, following three successive months of slower expansions. According to anecdotal evidence, greater client demand boosted new business in the latest survey period.

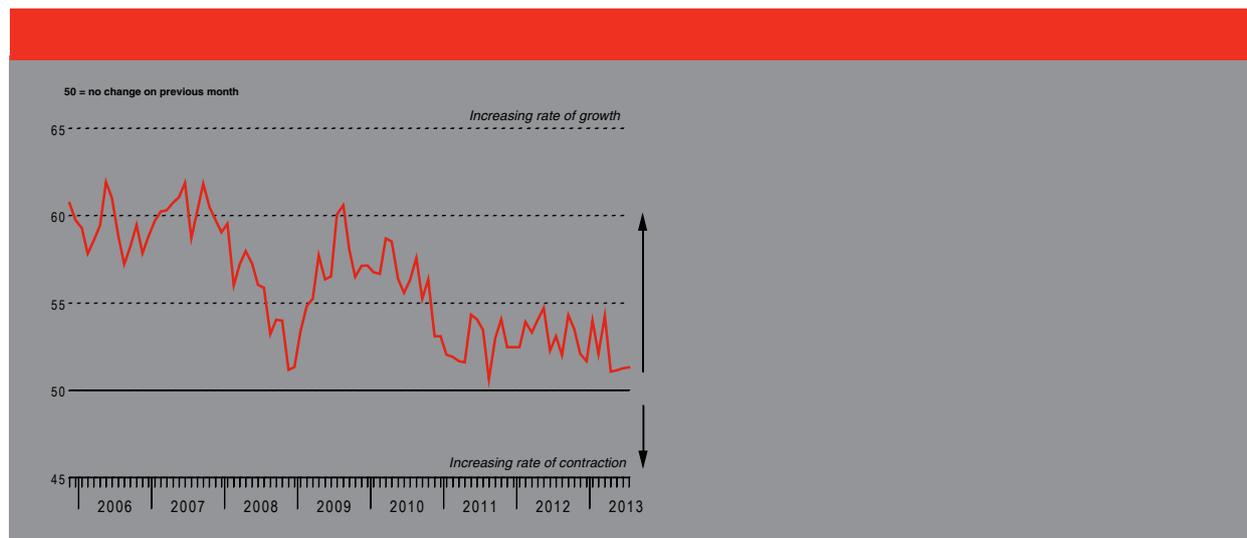
Staff numbers in China's service sector increased during July,

though the rate of job creation eased to a marginal pace. A number of firms mentioned hiring additional staff, particularly graduates, to help increase capacity. Consequently, backlogs of work declined for the second month in a row. However, the rate of depletion was only marginal and relatively unchanged from the previous month.

On the price front, average input costs continued to increase in July. The rate of input price inflation, though only modest, was the quickest since March. Anecdotal evidence suggested that higher purchasing prices and increased salary costs drove inflation in the latest survey period.

Despite higher operating costs, service providers cut their output charges for the third month in a row in a bid to win new clients. Although the rate of discounting was only slight, it was nonetheless the strongest for over a year.

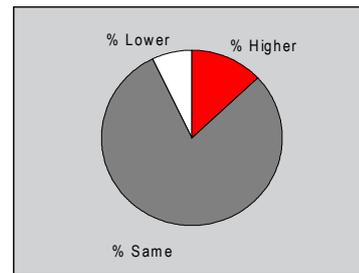
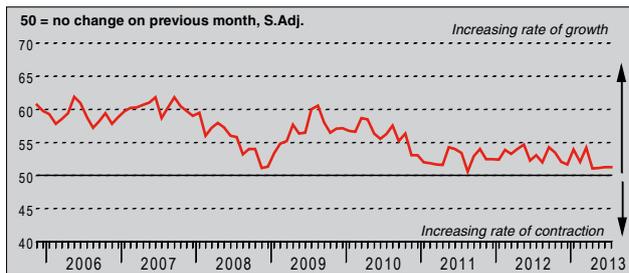
Service providers expect business activity to increase in 12 months' time. Although the degree of optimism was higher than the survey-low in June, it was still one of the lowest readings since data collection began in November 2005. While some firms remained confident that new projects will support activity growth in the next year, others were concerned that fragile economic conditions may dampen or reduce future activity.



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

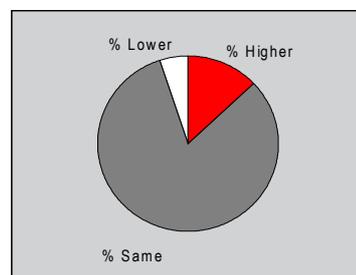
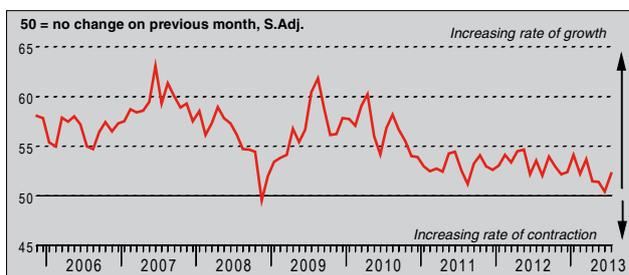
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



July data signalled a further increase in business activity at Chinese service providers. However, after adjusting for seasonal factors, the rate of growth remained substantially below the historical average, and unchanged from June's modest pace. Exactly 13% of panellists noted a rise in business activity in the latest survey period (compared with just over 7% that indicated a contraction), with a number of firms linking growth to new projects.

New Business Index

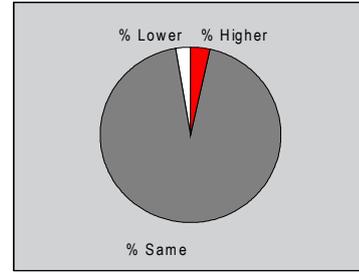
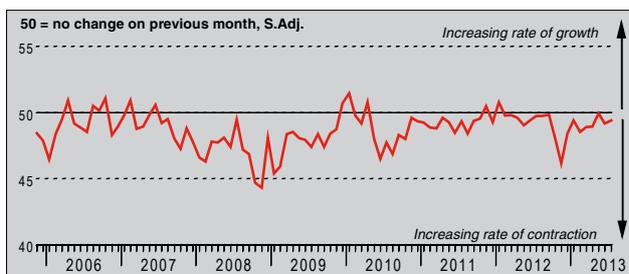
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



Total new orders continued to rise in China's service sector during July. Furthermore, the rate of growth accelerated from the previous month to a moderate pace that was the quickest since March. Approximately 13% of respondents noted an expansion of new order book volumes, compared with around 5% that reported a reduction. According to anecdotal evidence, greater client demand was the main factor behind growth of new orders.

Outstanding Business Index

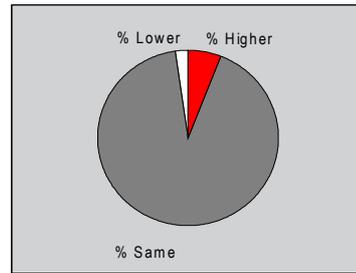
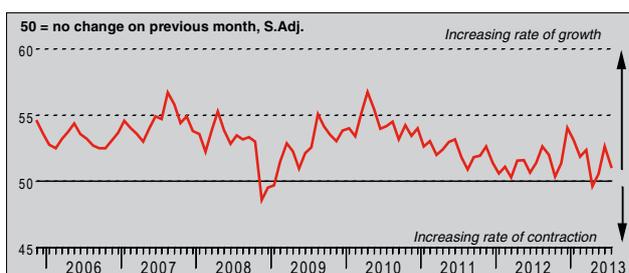
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlogs of work at Chinese service providers declined for the second month in a row in July. That being said, the rate of depletion was little-changed from June and only marginal. A number of survey respondents suggested that improved efficiency helped to decrease the level of work-in-hand in the latest survey period.

Employment Index

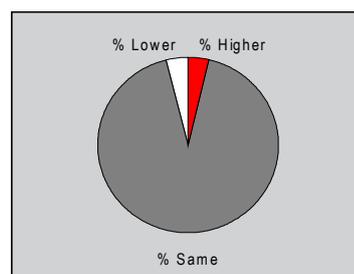
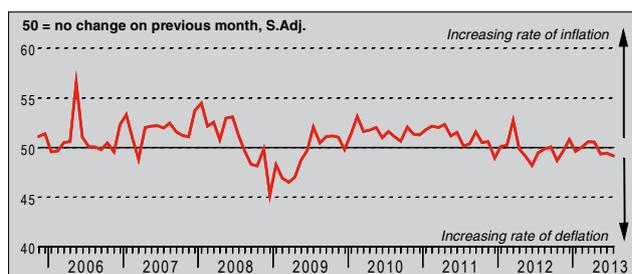
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Staffing levels at service sector firms in China increased for the third month in a row during July. However, the rate of job creation eased from June's five-month high, and was only marginal. Exactly 6% of panellists recorded an expansion of payroll numbers in the latest survey period (compared with around 2% that noted job shedding), with a number of firms hiring additional staff, graduates in particular, to help increase capacity.

Prices Charged Index

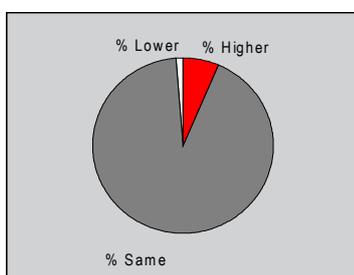
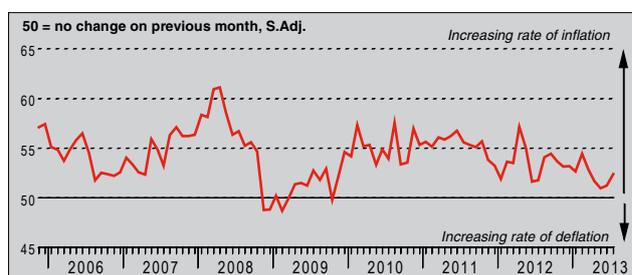
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Average tariffs set by service providers decreased for the third month in a row during July. The rate of discounting, however, was little-changed from June's marginal pace, with the vast majority of respondents (over 92%) noting no change to output charges in the latest survey period. According to some panellists, selling prices were cut in an attempt to attract new clients.

Input Prices Index

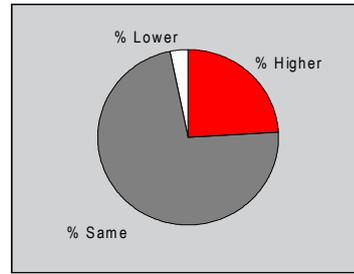
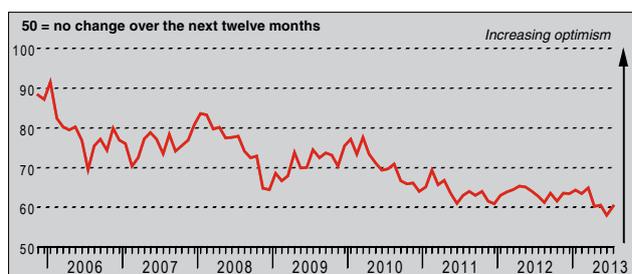
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average operating costs continued to increase in China's service sector in July. The rate of input price inflation accelerated to a four-month high, though was only modest. More than 6% of panellists noted higher input costs since June's survey, while just over 1% signalled a reduction. Anecdotal evidence largely linked inflation to higher purchasing prices and 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?



Service providers in China were optimistic in July, expecting business activity to rise over the next 12 months. Although the degree of positive sentiment improved upon June's historical low, it was still substantially below the series average and highlighted that the sector remains cautiously optimistic with regards to future growth. A number of firms commented that new projects will boost activity in the coming year, while others expressed concerns over fragile economic 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.

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