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HSBC China Services PMI™

Business activity growth at five-month high

Key findings:

- Marked expansion of both activity and new business
- Employment levels are cut for only the second time since January 2009
- Business expectations improve for the second successive month

Chinese service providers signalled a further increase in business activity during August. Moreover, the rate of growth accelerated to a marked pace that was the quickest since March. Similarly, new business increased at the quickest pace in five months. In contrast, employment levels declined for only the second time in 55 months, albeit marginally. Nonetheless, service providers expressed an increased level of optimism towards future output, with the level of positive sentiment at a five-month high. On the price front, average input costs increased modestly, while output charges were raised for the first time in four months.

After adjusting for seasonal factors, the HSBC China Services Business Activity Index posted 52.8 in August, up from 51.3 in July, and signalled a marked increase in business activity in the Chinese service sector. Furthermore, it was the quickest expansion of activity since March, following a four-month period of relatively stagnant growth.

New business also increased over the month, and at a marked pace. Approximately 11% of panellists reported higher volumes of new work, with a number of respondents attributing this to a combination of stronger client demand and recent promotions.

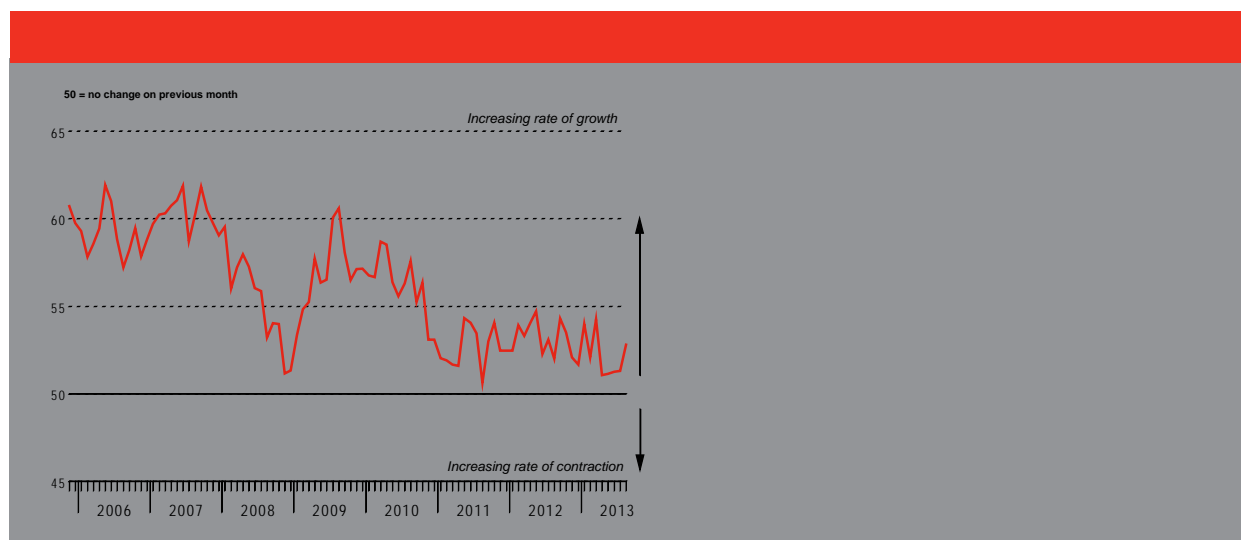
Despite increased levels of business activity and new work, employment fell for the first time in four months in August, albeit slightly. Furthermore, it was only the second time payroll numbers had been cut since January 2009. According to some

panel members, company restructuring policies were linked to job shedding in the sector. Nonetheless, backlogs of work declined for the third month in a row. However, the rate of depletion was only slight and little-changed from July.

Input costs faced by service sector firms continued to increase in August. However, the rate of inflation was modest and relatively unchanged from July. Moreover, it was weaker than the series average. A number of panellists mentioned that higher labour and transportation costs drove inflation in the latest survey period.

Service providers raised their output charges for the first time in four months in August. Furthermore, the rate of increase was the fastest since March 2012. According to anecdotal evidence, firms raised their output charges in response to newly implemented Value-Added Tax reforms.

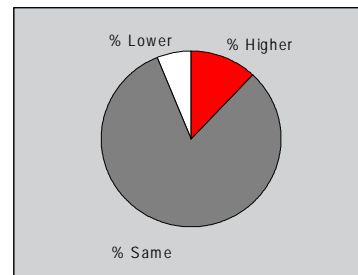
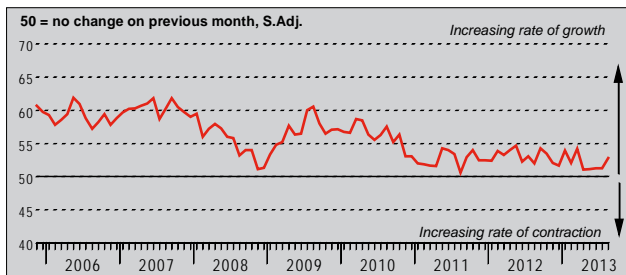
Service providers anticipate an increase in business activity over the next year. Furthermore, the degree of positive sentiment improved for the second month in a row and was the strongest since March. Nearly 29% of respondents expect higher activity levels in the next 12 months, with panellists generally expecting improved market conditions and strengthening client demand.



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

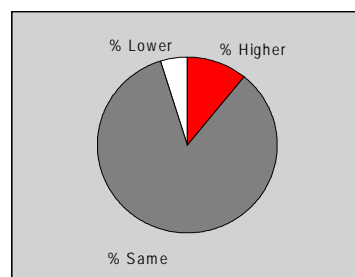
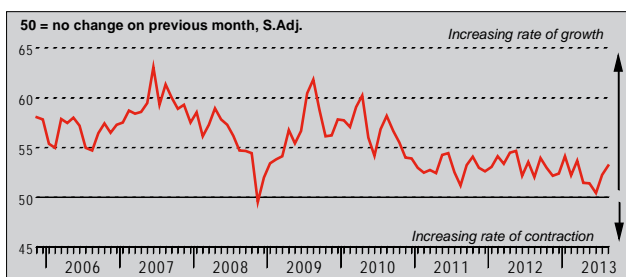
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Chinese service providers signalled a further expansion of business activity during August. After adjusting for seasonality, the rate of increase quickened to a marked pace, after a four-month period of relatively stagnant growth. According to anecdotal evidence, stronger client demand boosted new orders and therefore activity in the latest survey period.

New Business Index

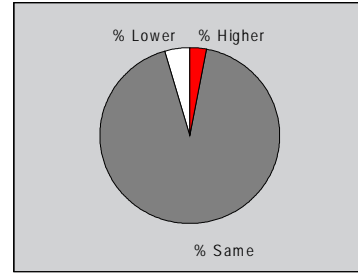
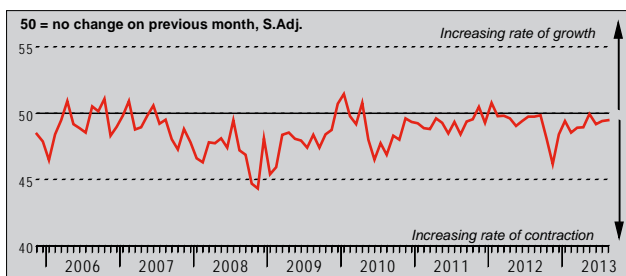
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index signalled an increased amount of new work at Chinese service providers in August. As was the case with business activity, the rate of expansion quickened to a marked pace. Furthermore, it was the fastest rate of new order growth since March. Approximately 11% of panellists recorded higher volumes of new business (while less than 5% that noted a reduction), with a number of firms attributing the rise to recent promotions which helped stimulate client demand.

Outstanding Business Index

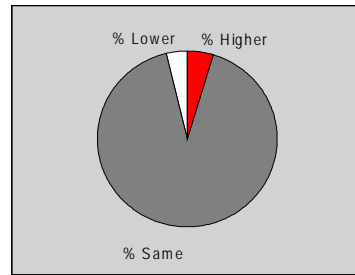
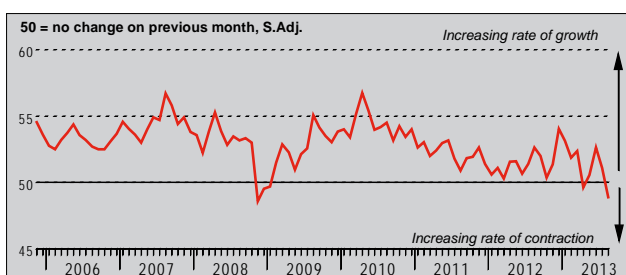
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Backlogs of work at service providers fell for the third month in a row during August. A number of panel members mentioned increased efforts to reduce outstanding business in order to free up capacity for new orders. That said, the rate of depletion was marginal and relatively unchanged from the previous month. The vast majority of survey respondents (nearly 93%) noted no change to the level of work-in-hand.

Employment Index

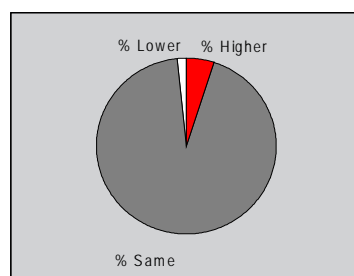
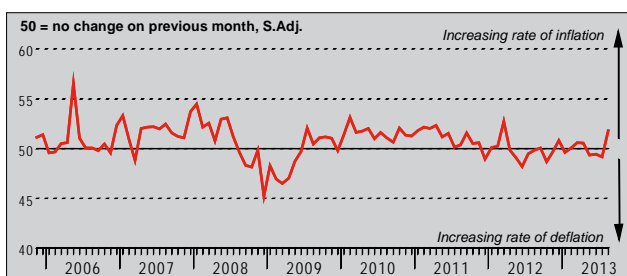
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Staffing levels decreased in the Chinese service sector during August. Though the rate of reduction was marginal, it was only the second time that job losses had been recorded in the sector for more than four-and-a-half years. Company restructuring programmes aimed at reducing costs were cited as a key factor behind the reduction in payroll numbers.

Prices Charged Index

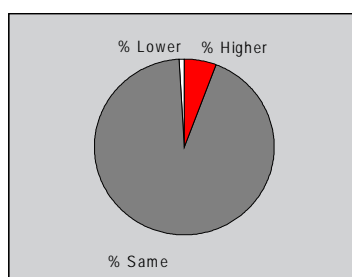
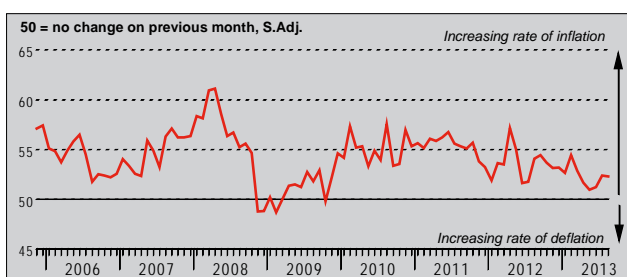
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output charges set by Chinese service providers increased in August, ending a three-month sequence of price discounting. However, the rate at which tariffs were raised was only modest. Exactly 5% of respondents recorded higher output prices (compared with less than 2% that cut their charges), with a number of firms linking the rise to recent nationwide Value-Added Tax reforms.

Input Prices Index

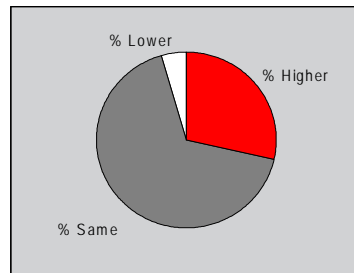
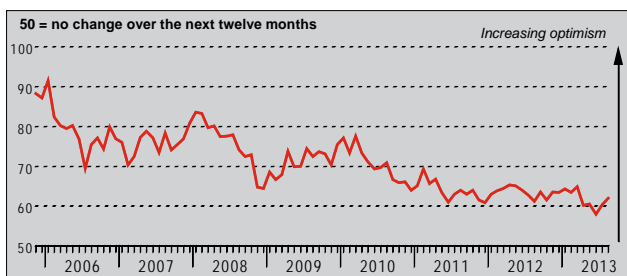
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input costs faced by service providers increased again during August. The rate of input price inflation was modest and relatively unchanged from the previous month. Furthermore, it was weaker than the historical average. Approximately 6% of panellists noted higher operating costs, while exactly 1% signalled a reduction. Inflation was generally attributed by panellists to higher labour and transportation 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 regarding the 12-month business outlook in August. The degree of positive sentiment increased to a five-month high, with nearly 29% of survey respondents expecting activity to increase in one year's time. Anecdotal evidence suggested that expectations of improved market conditions and stronger client demand would boost output over the next 12 months.

Notes on the Data and Method of Presentation

The China Services PMI™ covers hotels & restaurants, transport & storage, financial intermediation, renting & business activities, post & telecommunications and other services.

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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