HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC China Services PMI™

Modest expansion of services business activity in September

Key findings:

- Both activity and new business increase at slower rates
- Slight expansion of payroll numbers
- Business expectations remain below-trend

Latest data signalled a further modest increase of business activity at Chinese service providers in September. Growth was supported by a marked increase in new business, which led to a slight expansion of workforce numbers. However, business expectations weakened over the month, with the degree of positive sentiment one of the lowest recorded in the survey history. Meanwhile, average input costs rose at a relatively subdued pace, and firms raised their output charges for the second month in a row.

After adjusting for seasonal factors, the HSBC China Services Business Activity Index posted 52.4 in September, down from 52.8 in August. This signalled a moderate increase in business activity in the Chinese service sector. Although the rate of expansion was the second-strongest since March, growth remained weak in the context of historical data.

As was the case with activity, new order growth eased from August's five-month high in September. Nonetheless, the latest rise in new business was marked overall. A number of surveyed firms suggested that new products and improving economic conditions helped to strengthen client demand.

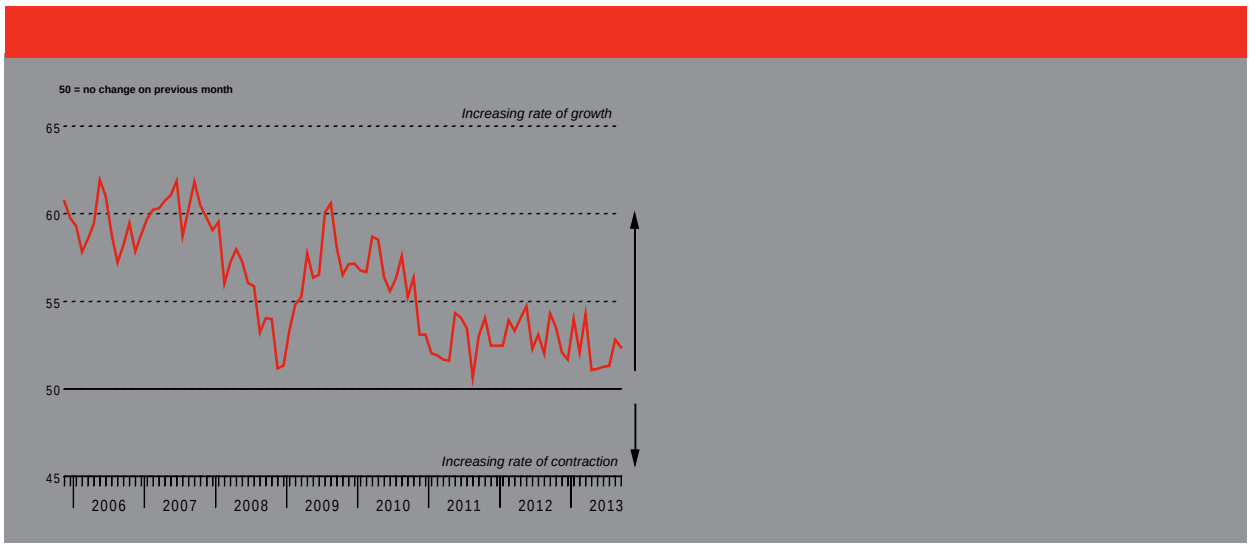
Employment in China's service sector increased in September, partially offsetting a reduction of staff numbers in August. However, the rate of job creation was only slight and much weaker than the series average.

Volumes of outstanding business meanwhile declined for the fourth successive month in September. That said, the rate of backlog depletion remained marginal, as has been the case throughout the current sequence of reduction.

Cost burdens faced by Chinese service providers increased during September, extending the current trend to 47 months. The rate of input price inflation was similar to the modest pace recorded in August and weaker than the long-run series average. According to anecdotal evidence, a combination of increased staffing costs and higher petroleum prices drove inflation in the latest survey period.

Service sector firms operating in China passed on their higher operating costs to clients by raising their output charges in September. This was the second month running where selling prices have risen. The rate of increase, though modest, was the second-strongest in a year-and-a-half.

Concurrently, service providers remained optimistic regarding the 12-month business outlook in September. However, the degree of positive sentiment weakened from August and was substantially below the long-run series average. Although some firms linked optimism to improving market conditions, others believed that relatively muted client demand would dampen future growth prospects.



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.

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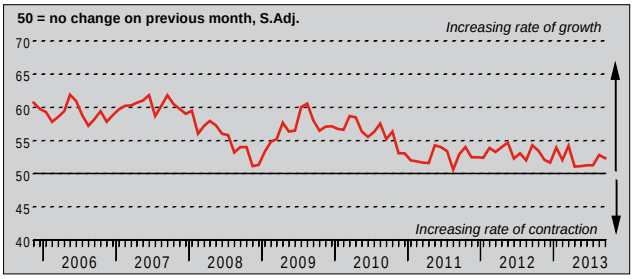
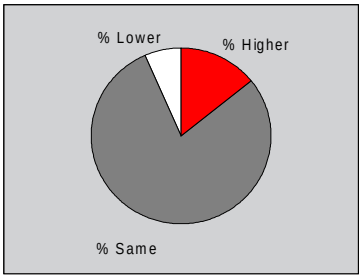
Business Activity Index

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.

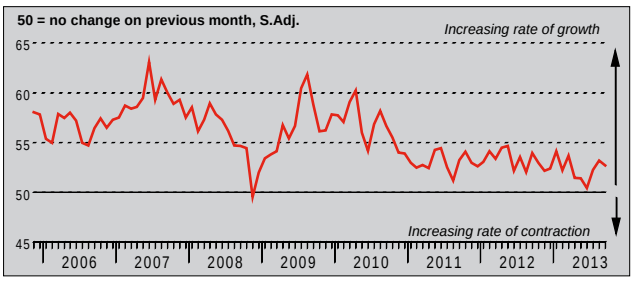


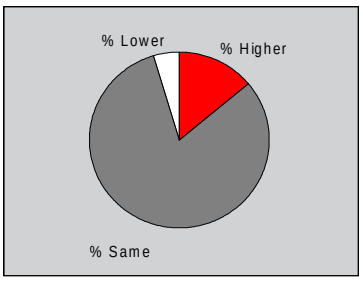


As has been the case since data collection began in late-2005, business activity increased at Chinese service providers in September. Despite having eased since August, the rate of growth was the second-strongest since March and moderate overall. Just over 14% of surveyed firms noted increased activity levels (compared with 7% that reported a decrease), amid reports of greater 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.

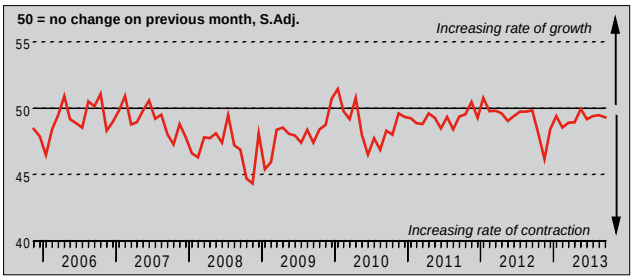


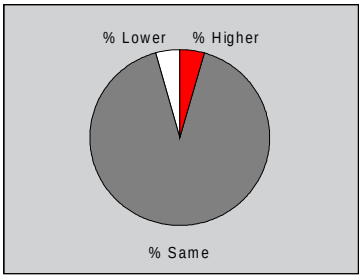


The seasonally adjusted New Business Index signalled a further expansion of new work at Chinese service sector firms in September. The rate of growth slowed from the previous month, but was nonetheless marked, with exactly 14% of panellists reporting higher volumes of new orders. According to anecdotal evidence, new products and improving market conditions boosted client demand in the latest survey period.

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.

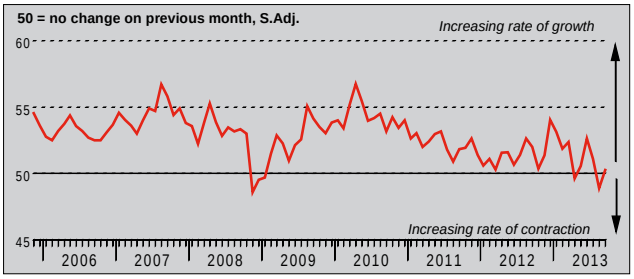


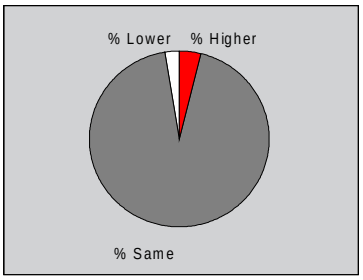


Backlogs of work in the Chinese service sector declined for the fourth successive month in September. After adjusting for seasonal factors, however, the rate of reduction was only marginal, as has been the case throughout the current sequence of reduction. A number of surveyed firms linked relatively subdued client demand to the depletion of outstanding work.

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).

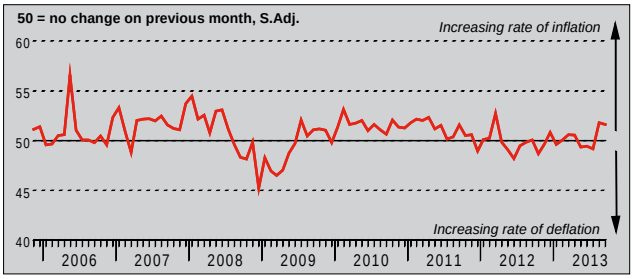


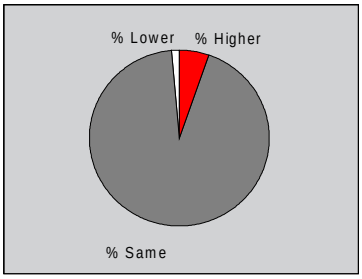


Following a slight reduction in August, workforce numbers increased at service providers in China during September. That said, the rate of expansion was weaker than the long-run series average and only slight. Anecdotal evidence suggested that a number of firms hired additional staff in response to new order growth.

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.

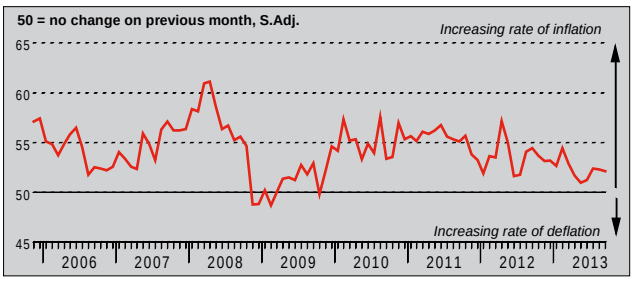


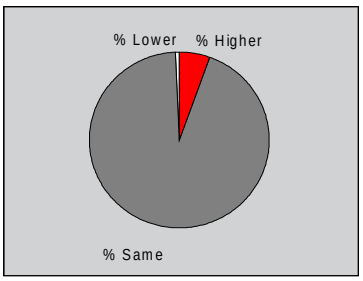


Output charges set by Chinese service sector companies increased for the second month running in September. The rate of increase was moderate and broadly similar to that seen in August, with over 5% of surveyed firms raising their tariffs. Higher output charges were linked to a combination of newly implemented VAT-policy reforms and improving demand conditions.

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.

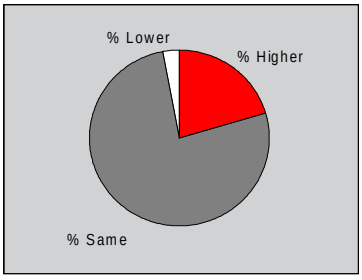




Chinese service providers signalled a further increase in average input costs in September. The rate of inflation was modest, as has been the case throughout the third quarter. Over 5% of respondents noted higher input costs (compared with less than 1% that reported a reduction), with increased staffing costs and higher petroleum prices the drivers of 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?



Business activity in China's service sector is expected to be higher in 12 months' time, according to latest survey data. That said, the degree of confidence eased from August's five-month high and was the second-weakest in the near eight-year series history. Nonetheless, one-in-five panellists expected output to increase over the next year, with this linked to improving market conditions. However, there were concerns over relatively subdued client demand dampening future growth.

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.

Warning