

# HSBC China Services PMI™

Business activity levels increase at faster rate in October

**Key findings:**

- New business growth at seven-month high
- Employment levels increase for the second month in a row
- Fastest rate of input price inflation since February

Business activity in China's service sector increased again in October, amid reports of strengthening client demand. Total new orders rose solidly over the month, and at the strongest rate since March. In an effort to raise productive capacity, employment levels rose for the second successive month, albeit slightly. Business expectations regarding the 12-month business outlook also improved from September, but remained below-trend. Meanwhile, input price inflation accelerated to an eight-month high, and output charges were raised modestly.

After adjusting for seasonal factors, the HSBC China Services Business Activity Index posted 52.6 in October, up from 52.4 in September. This signalled a further moderate increase in business activity in the Chinese service sector. Although growth remained modest and weak in the context of historical data, it was one of the strongest expansions in 2013 so far.

Increased business activity was accommodated by a further rise in new business placed at Chinese service providers in October. Furthermore, the rate of new order growth accelerated to the fastest in seven months.

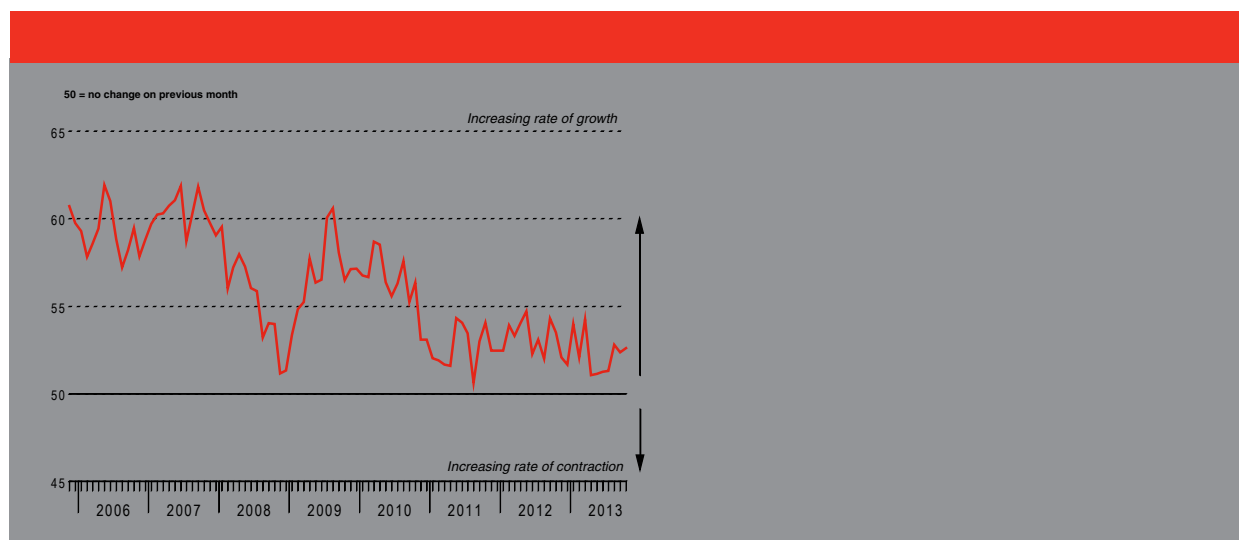
Service sector firms expanded their workforce numbers for the second successive month in October. That said, the rate of job creation remained marginal overall. According to a number of panellists, employment levels increased as firms received a greater volume of new orders.

Consequently, the volume of outstanding business declined for the fifth successive month. However, the rate of backlog depletion was in line with the average for the current sequence and only marginal.

Average input costs faced by service providers in China increased again in October. The rate of inflation accelerated to an eight-month high, with more than 6% of surveyed firms reporting higher cost burdens. However, the pace of inflation remained below the series average. According to a number of panellists, a combination of increased labour costs and higher purchasing prices drove inflation in the latest survey period.

Service providers passed on parts of their higher costs to clients, by raising their average tariffs modestly over the month.

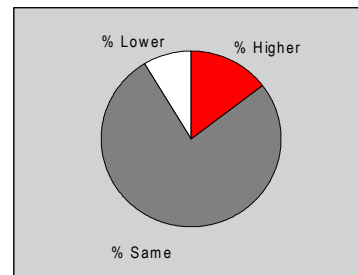
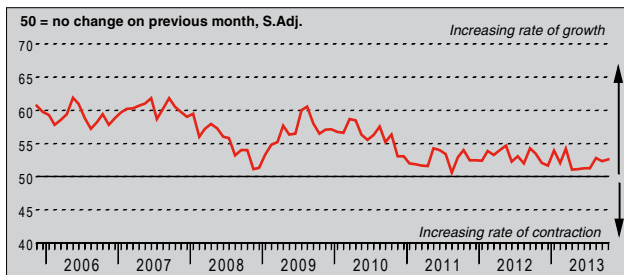
Chinese service sector companies were optimistic regarding the 12-month business outlook in October, with almost a quarter of survey respondents expecting higher activity levels in one year's time. The degree of positive sentiment improved from the previous month and was the second-strongest in seven months. That said, confidence remained weaker than the series average. Anecdotal evidence suggested that the launch of new products and improving economic conditions will boost activity over the next year.



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

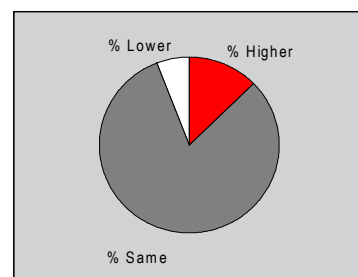
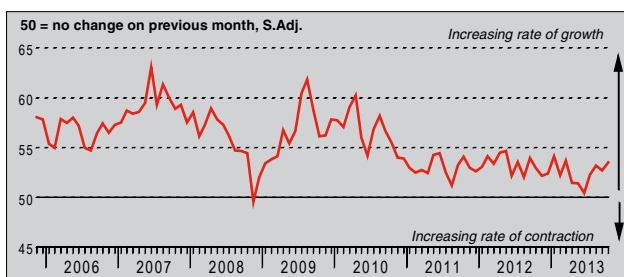
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



October data signalled a further expansion of business activity in China's service sector. After adjusting for seasonal variation, the rate of growth quickened slightly from September, but remained moderate overall. Nonetheless, it was one of the strongest rates of expansion in 2013 so far. Anecdotal evidence suggested that greater volumes of new work lifted activity levels in the latest survey period.

### New Business Index

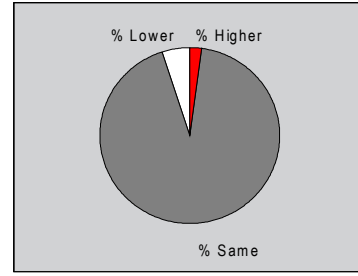
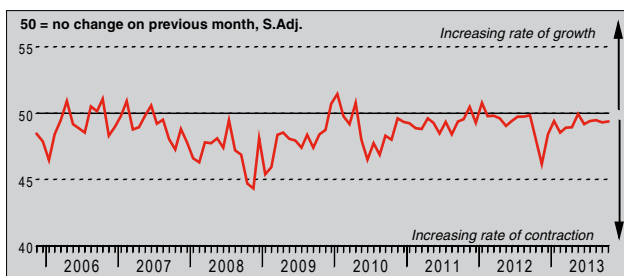
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



The seasonally adjusted New Business Index signalled an increased amount of new work at Chinese service providers in October, as has been the case since December 2008. Furthermore, the rate of new order growth accelerated from the previous month to the strongest since March. Nearly 13% of panellists noted an increased amount of new business, with a number of firms attributing this to improving demand conditions.

### Outstanding Business Index

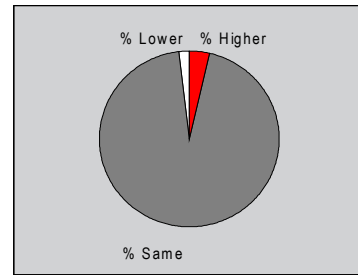
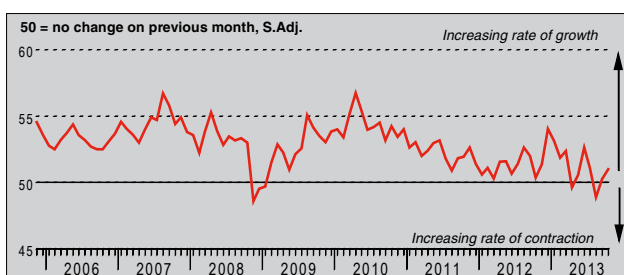
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



The level of work-in-hand at Chinese service sector firms declined for the fifth successive month in October. After adjusting for seasonality, however, the rate of backlog depletion was little-changed from the marginal paces recorded in the previous four months. Higher staffing levels at some firms were said to have reduced the level of outstanding business in the latest survey period.

### Employment Index

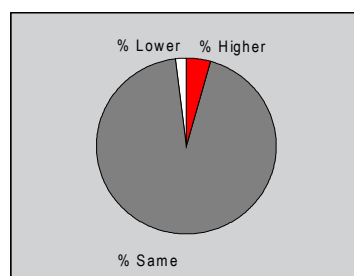
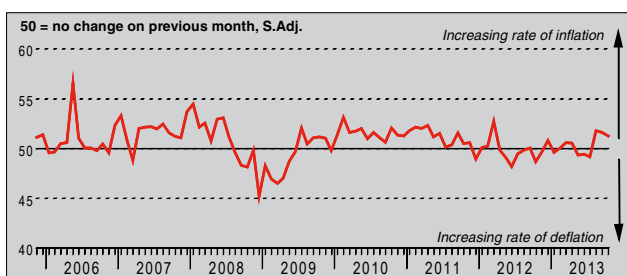
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



Latest data signalled an expansion of payroll numbers at Chinese service providers for the second successive month in October. That said, the rate of job creation was marginal, despite having quickened from the previous month. According to some firms, employment levels were increased in line with greater client demand.

## Prices Charged Index

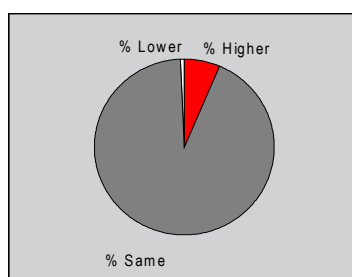
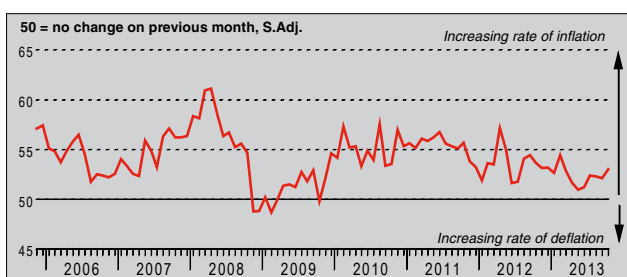
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Output charges set by service providers in China increased for the third month running in October. That said, the rate at which tariffs were raised was moderate and the weakest in the current sequence. A number of panellists suggested that firms raised their output charges as a result of increased input costs.

## Input Prices Index

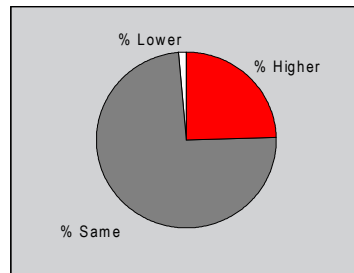
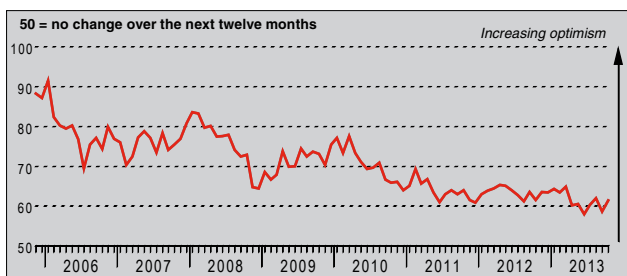
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Average input prices in China's service sector increased in October, extending the current trend to four years. Moreover, the rate of input price inflation was solid and the strongest since February. Anecdotal evidence attributed input price inflation to a combination of increased salary costs and higher purchasing prices.

## 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?



Firms operating in China's service sector were optimistic towards the 12-month business outlook in October, generally expecting activity levels to rise in one year's time. Moreover, the degree of positive sentiment increased from the previous month to the second-strongest in seven months. Nearly one-quarter of survey respondents anticipate activity levels to rise over the next year, while less than 2% expect a reduction. Optimism was largely attributed to improving economic conditions and the launch of new products.

## 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

The intellectual property rights to the HSBC China Services PMI™ provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. 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.