HSBC *Purchasing Managers' Index*™ 2014

compiled by markit

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HSBC China Services PMI™

Chinese service sector activity continues to expand at marginal rate

Key findings:

- Output and total new business expand only slightly
- Selling prices cut at quickest rate in 19 months
- Outstanding business declines at fastest pace since April 2013

January data signalled weaker expansions of business activity and new orders at the start of 2014, which both rose marginally over the month. Consequently, firms cut their average tariffs at the quickest rate since June 2012 in an attempt to boost sales. Slower intakes of new work also led to a further depletion of work-in-hand, while employment growth eased to a marginal pace. Despite weakening business conditions, service sector firms signalled a strong degree of positive sentiment regarding the 12-month business outlook.

After adjusting for seasonal factors, the HSBC China Services Business Activity Index posted 50.7 in January down from 50.9 in December. This signalled only a marginal increase in Chinese service sector business activity. Furthermore, it was the slowest expansion of activity since August 2011 and well below the historical average. According to a number of surveyed firms, business activity growth was dampened by weaker-than-expected growth of new business.

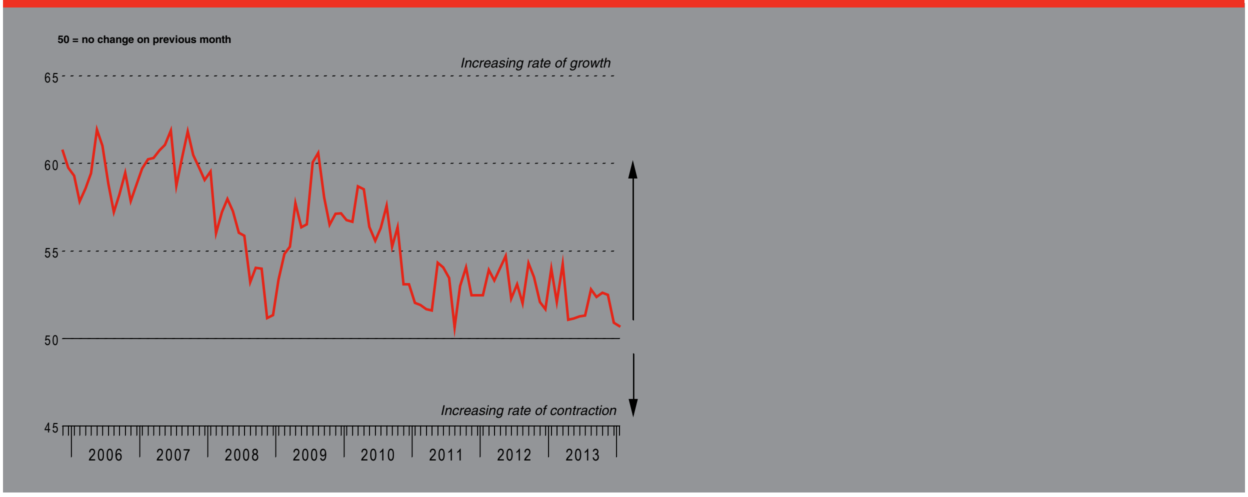
Latest data signalled a slower rise in total new work during January, with Chinese service providers reporting only a marginal pace of new order growth. Furthermore, it was the weakest increase in new business since last June. When an increased amount of new work was noted, it was generally attributed to the release of new products, while other panellists commented that relatively subdued client demand stemmed from weaker economic conditions.

January data also signalled a slower expansion of payroll numbers, the slowest in four months. A number of surveyed companies hired additional staff to accommodate increased business requirements, while the non-replacement of staff at other firms led to reduced payroll numbers.

Outstanding business in China's service sector continued to decline in January, extending the current trend to two months. Though marginal, it was the strongest rate of backlog depletion since April 2013, with slower growth of new work cited by a number of panellists as the reason behind the fall in work outstanding.

As part of efforts to increase new business, firms cut their average tariffs for the first time in six months. Moreover, the rate of discounting was the strongest since June 2012. Meanwhile, average input costs continued to rise at Chinese service providers in January. However, the rate of input price inflation weakened to a modest pace that was below the historical average.

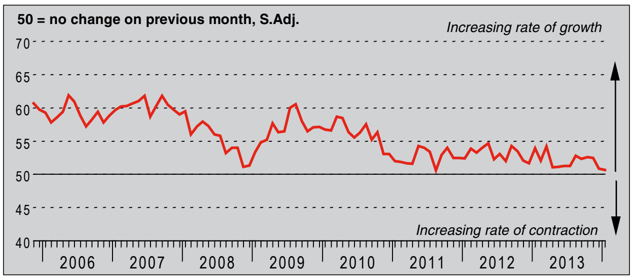
Service sector firms in China remained optimistic in January, generally expecting business activity levels to be higher than current levels by January 2015. Though the degree of optimism weakened fractionally from December, it was still strong overall. Improving economic conditions and new product launches are expected to boost activity over the next year.

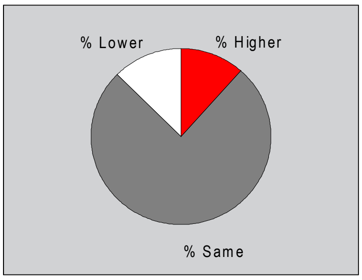


The survey uses a methodology identical to the HSBC China Manufacturing *PMI*™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure 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 either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. HSBC use the above marks under license. Markit is a registered trade mark 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.

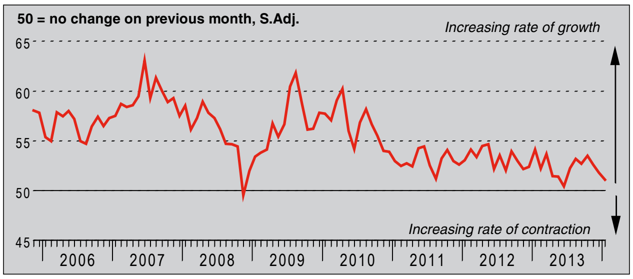


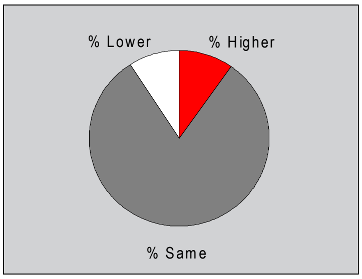


Chinese service providers signalled a further expansion of business activity at the start of 2014. After adjusting for seasonal variation, however, the rate of growth eased to a marginal pace that was the weakest in nearly two-and-a-half years. According to anecdotal evidence, business activity growth was dampened by a slower increase in new business.

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.

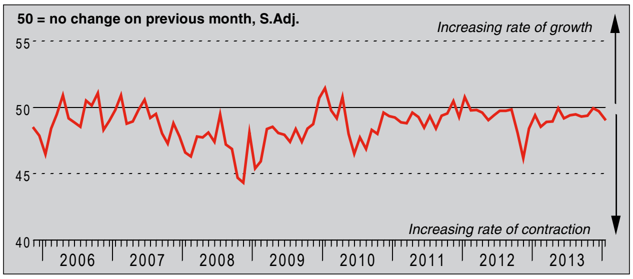


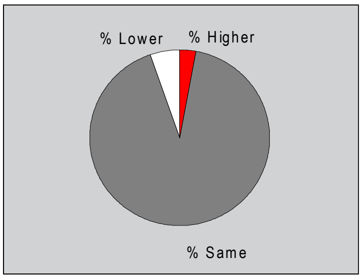


The seasonally adjusted New Business Index signalled an increased amount of new work placed at Chinese service providers for the sixty-second successive month in January. That said, the rate of new order growth was the weakest since last June. New product launches boosted new work at some surveyed firms, while others mentioned that weaker economic conditions lowered 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.

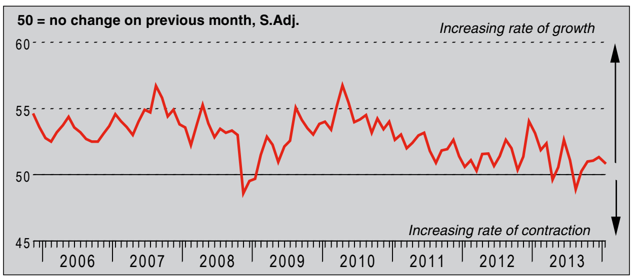


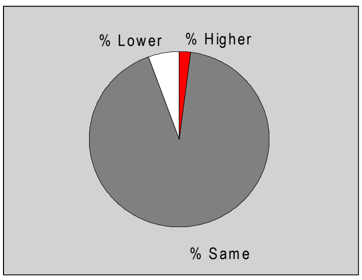


The level of outstanding business at service sector firms in China decreased for the second successive month in January. Though only marginal, the rate of backlog depletion was the strongest since April 2013. According to a number of surveyed companies, slower growth of new business enabled firms to reduce their 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).

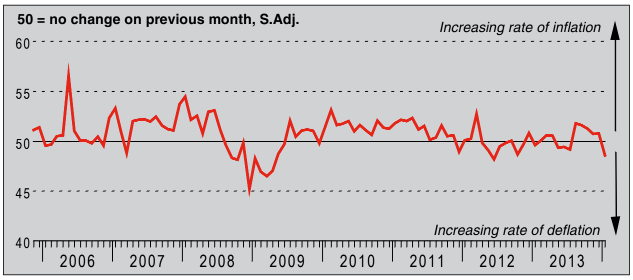


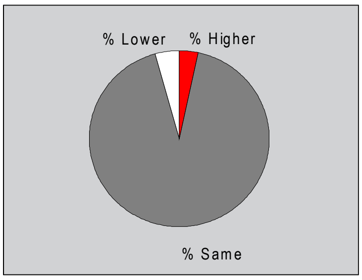


Staffing levels at Chinese service providers increased again in January, extending the current trend to five months. After adjusting for seasonality, however, the rate of job creation slowed to a marginal pace that was the weakest recorded since last September. While higher production requirements boosted employment at some firms, the non-replacement of voluntary staff reduced payroll numbers at others.

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.

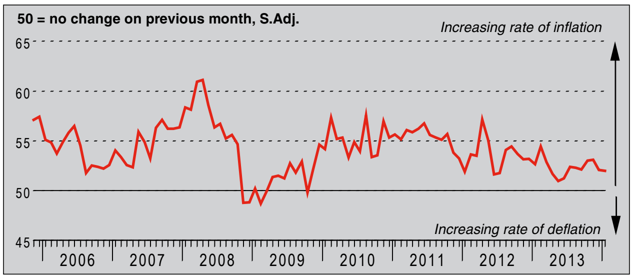


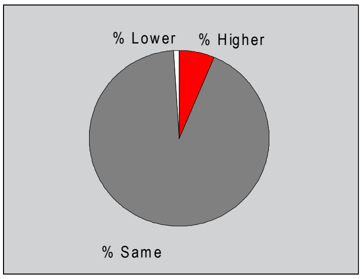


Average selling prices set by Chinese service providers decreased in January, ending a five-month sequence of output charge inflation. Furthermore, the rate of discounting was moderate and the strongest recorded since June 2012. Anecdotal evidence suggested that companies reduced their tariffs as a result of competitive market pressures and to attract more sales.

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.

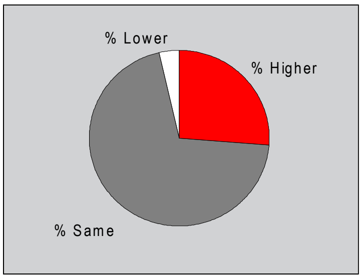




Latest data signalled a further increase in average input costs faced by service sector firms in China, as has been the case in each of the past 51 months. After adjusting for seasonal factors, however, the rate of input price inflation eased to a moderate pace that was below the long-term series average. Greater cost burdens were linked by panellists to higher labour costs and increased raw material 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?



Chinese service providers were optimistic at the start of 2014, generally expecting business activity to be higher than current levels in 12 months' time. The Business Expectations Index signalled that the degree of positive sentiment edged down fractionally from December, but was still strong overall. Optimism was linked to improving market conditions as well as 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