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The HSBC Hong Kong Manufacturing PMI series is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

Copies of the report are available on annual subscription from Markit. For subscription details please contact: economics@markit.com

HSBC Hong Kong PMI

PMI data signalled growth in Hong Kong economy for first time in fourteen months.

Key findings:

- New order levels rose solidly, leading to further rise in output.
- Purchasing activity increased, reflective of higher production.
- Pace of job cuts eased notably.

The headline HSBC Hong Kong Purchasing Managers' Index (PMI™) posted 52.8 in August. This signalled solid growth within the Hong Kong economy, ending a thirteen-month period where data had indicated a deterioration of operating conditions. Output and new order levels expanded for a second successive month, as improving economic conditions led to increased demand. Higher levels of output impacted positively on purchasing volumes, although employment levels failed to rise for the tenth consecutive month.

The headline PMI is a composite index designed to provide timely indications of changes in prevailing business conditions in the Hong Kong economy. PMI readings above 50.0 signal an improvement in business conditions while readings below 50.0 signal deterioration.

New order levels posted a second successive month of growth in August, with incoming new business rising at the fastest pace since December 2007. Orders from mainland China continued to rise, although this was at a slower pace than registered in the previous month. This suggests that the overall rise in order levels was a result of increased demand from within Hong Kong and export markets outside of China.

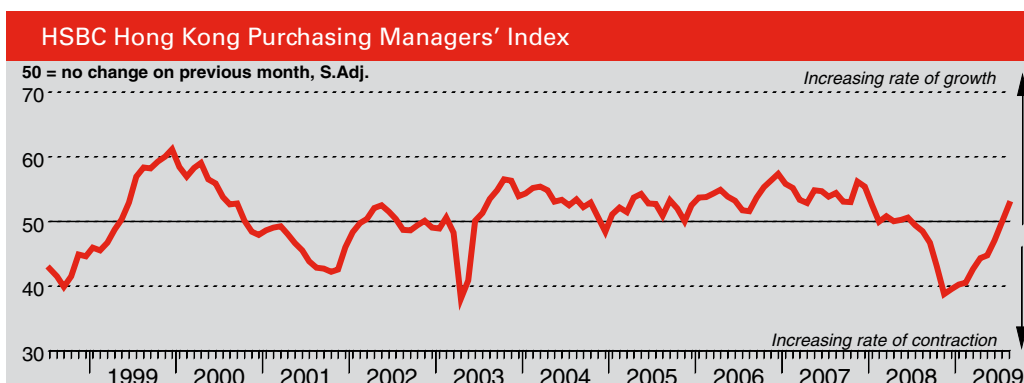
Improved overall order levels stimulated a further rise in production at companies operating in Hong Kong. Despite the solid acceleration in the rate of

increase in output since July to a twenty-month high, backlogs posted a further rise in August. Although only modest, growth was the strongest since January 2008.

Reflecting expanded production levels, companies in Hong Kong increased their purchasing activity in August. This was the first month of higher buying volumes since June 2008, with the rate of growth solid. However, stocks of purchases remained largely unchanged during August, suggesting that new purchases had been largely absorbed by increased order requirements. In line with higher purchasing activity signalled, suppliers lengthened their delivery times.

The positive gains in output and order levels did not result in higher staff numbers being recorded in August. Employment levels posted a further decline, although this was markedly slower than July, and was the weakest in ten months of job cuts.

Input costs rose for a second successive month in August, with the rate of increase accelerating marginally over July data. A solid rise in staff costs posted during the month resulted in the increased pace in overall input price inflation (the rise in purchasing costs was largely unchanged since July). Panellists were unable to lift output prices, despite increased costs, marking the eleventh month of reduced charges.

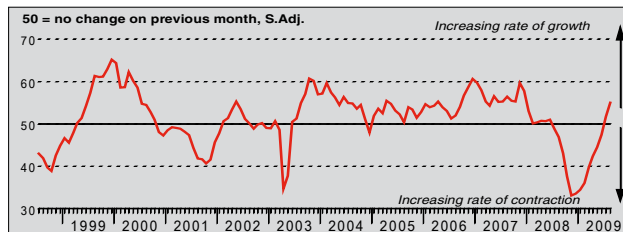


The HSBC Hong Kong Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the Hong Kong economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	11.8	58.0	30.2	-18.3
	Apr	18.5	53.9	27.6	-9.2
	May	17.6	57.6	24.8	-7.1
	Jun	21.5	58.1	20.4	1.1
	Jul	22.4	64.4	13.2	9.2
	Aug	22.3	67.9	9.8	12.5

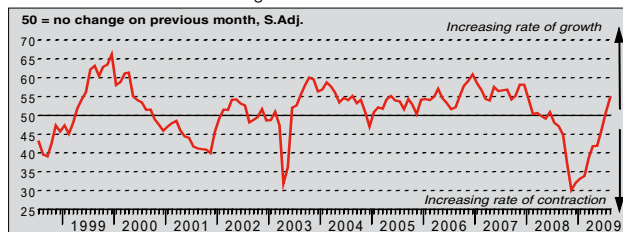


Private sector companies in Hong Kong reported a robust rise in output during August. Growth was posted for a second successive month, and accelerated solidly over July data to a twenty-month high, continuing a steep recovery from the peak of the downturn in November 2008. Under 10% of panellists reported falling levels of output, improving on the prior month and resulting in the increased positive net balance. Panellists noted that output had increased following the receipt of higher order levels.

New Orders Index

Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	16.5	51.8	31.7	-15.2
	Apr	16.6	56.2	27.2	-10.6
	May	14.9	57.0	28.1	-13.2
	Jun	19.2	61.5	19.4	-0.2
	Jul	21.6	65.9	12.4	9.2
	Aug	20.0	71.4	8.5	11.5

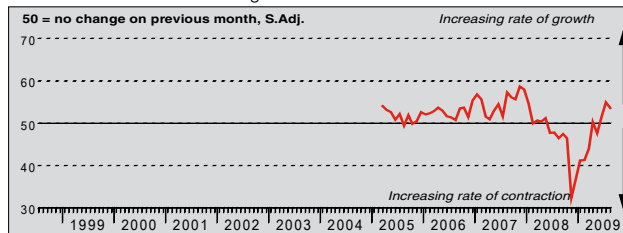


Robust expansion of new orders was posted in August, as Hong Kong companies recorded growth in incoming new business for the second successive month. The rate at which new orders increased rose markedly over July data, and was solidly above the historical average for the survey. Improving economic conditions have boosted new order levels. While orders from mainland China increased in August, it was to a lesser extent than in July, implying that the increased rate of overall growth was derived from domestic demand, or export orders outside of China.

New Orders Index: Mainland China

Q. Please compare the level of new business received from mainland China this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	21.1	49.9	29.0	-7.9
	Apr	20.8	70.9	8.3	12.5
	May	16.4	60.0	23.6	-7.1
	Jun	22.0	61.2	16.8	5.1
	Jul	25.1	58.6	16.3	8.8
	Aug	14.0	76.7	9.3	4.7

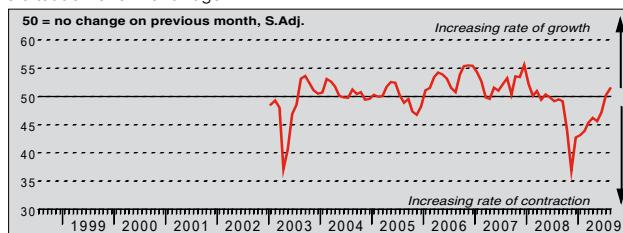


New orders from mainland China posted a further rise in August, although the rate of growth eased marginally since July. While the proportion of panellists recording lower new orders reduced during August, the proportion reporting higher orders fell to a greater extent, therefore resulting in a smaller positive net balance. Where new orders to China were reported to have risen, growth was linked to improved economic conditions.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	10.7	73.6	15.8	-5.1
	Apr	10.9	73.0	16.0	-5.1
	May	12.9	72.6	14.5	-1.5
	Jun	11.5	75.6	12.8	-1.3
	Jul	15.3	78.2	6.5	8.8
	Aug	10.9	83.4	5.7	5.1

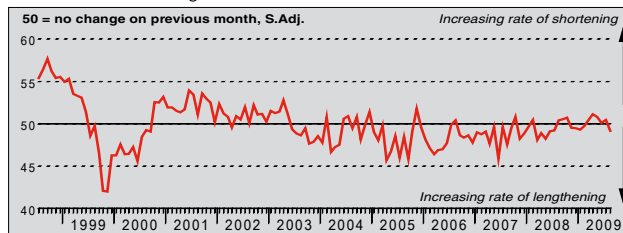


Reflective of increased order levels, outstanding business rose during August. July data showed that backlogs had remained largely unchanged on the month before, and the accelerated growth in outstanding business recorded during August was the strongest since January 2008. The signalled rise in backlogs suggests that the higher levels of output recorded over the last two months have not been sufficient to deal with both new and existing contracts.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	3.9	94.9	1.2	2.7
	Apr	3.2	94.2	2.6	0.6
	May	4.4	93.5	2.2	2.2
	Jun	3.7	93.4	2.9	0.8
	Jul	2.5	96.8	0.7	1.8
	Aug	3.7	91.3	5.0	-1.3

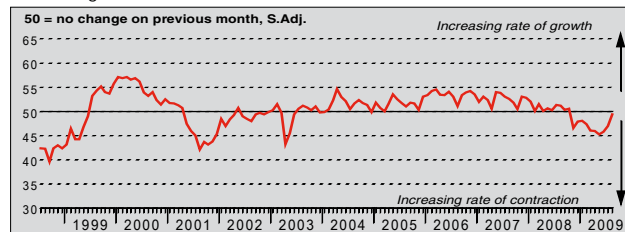


Suppliers' delivery times lengthened in August, ending a five-month period where lead times had been continually shortened. The rate at which lead times were extended was marginal, and reflective of increased order levels being received by vendors. However, the seasonally adjusted Suppliers' Delivery Times Index has only marginally fluctuated around the 50.0 no change level over the past four months, with the majority of panellists signalling that lead times have remained unchanged.

Employment Index

Q. Please compare the level of employment at your unit this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	0.8	89.0	10.2	-9.4
	Apr	2.5	83.5	14.0	-11.5
	May	2.9	87.2	10.0	-7.1
	Jun	2.3	89.0	8.7	-6.4
	Jul	3.3	89.4	7.3	-3.9
	Aug	9.6	84.5	5.9	3.7

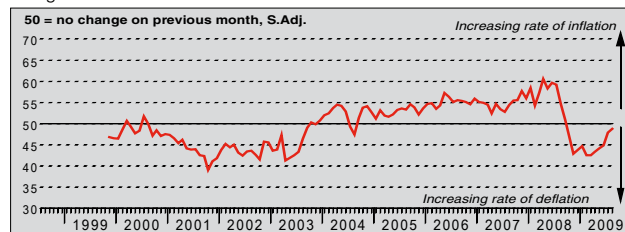


Employment levels continued to decline in August, despite a robust rise in output. Companies in Hong Kong have been reducing staff numbers for the last ten months, although August data signalled the slowest rate of contraction posted in that period. Where panellists indicated reduced staff numbers, this was attributed to fewer orders (a proportion of companies still reported falling order levels in August), and subsequent company reorganisation.

Prices Charged Index

Q. Please compare the average prices you charged this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	3.6	77.3	19.1	-15.4
	Apr	4.6	77.5	17.9	-13.2
	May	3.8	82.9	13.3	-9.4
	Jun	3.2	85.4	11.4	-8.2
	Jul	3.6	89.5	6.8	-3.2
	Aug	4.9	89.1	6.0	-1.1

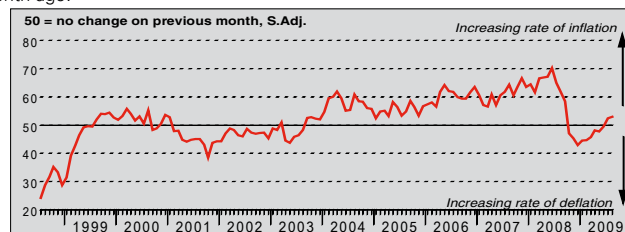


Prices charged by Hong Kong private sector companies continued to fall in August, extending the sequence of sustained reductions in charges to eleven months. However, the rate of decline continued to ease in the month, with the respective index signalling only a marginal reduction in prices charged during August as the majority of panellists indicated no change in charges. Where output prices fell, this was attributed to competitive pressures.

Overall Input Costs Index

Q. Please compare the overall average input prices this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	4.9	79.8	15.2	-10.3
	Apr	10.9	80.6	8.6	2.3
	May	6.4	86.4	7.2	-0.8
	Jun	10.1	81.5	8.4	1.7
	Jul	12.3	83.9	3.8	8.4
	Aug	9.1	89.6	1.3	7.8

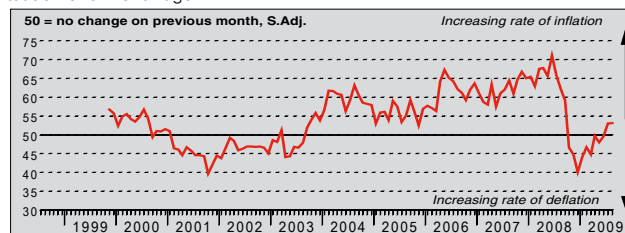


Companies in Hong Kong reported that overall input costs had risen solidly in August, and at a faster pace than in July. August marked the second month of successive increases in input costs, following a nine-month period of falling costs. Both purchase prices and staff costs rose solidly during August, and underpinned the increase in overall input costs, which was the strongest for a year.

Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	4.9	78.6	16.5	-11.6
	Apr	12.8	79.9	7.3	5.6
	May	6.6	86.4	7.1	-0.5
	Jun	11.6	79.0	9.3	2.3
	Jul	10.9	85.4	3.7	7.2
	Aug	8.2	90.6	1.2	7.0

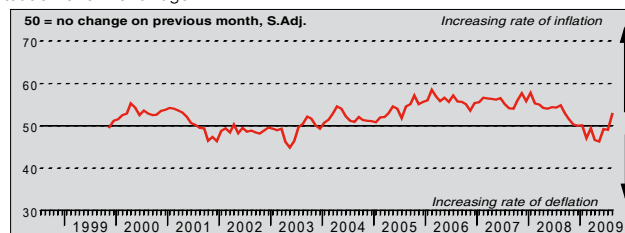


Costs of purchases posted a further rise in August, although the rate of increase was in line with that recorded in July. Companies in Hong Kong have now indicated rising purchase prices over the last two months, although the rate of increase remained lower than the historical average for the survey. Responses from panellists noted that higher raw material prices had impacted on their purchasing prices during the month, leading to the continued rise in the respective index.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	1.0	96.2	2.8	-1.9
	Apr	1.9	90.6	7.5	-5.6
	May	0.9	91.3	7.8	-6.9
	Jun	3.9	92.1	4.0	-0.1
	Jul	1.8	94.3	3.9	-2.1
	Aug	6.3	93.7	0.0	6.2

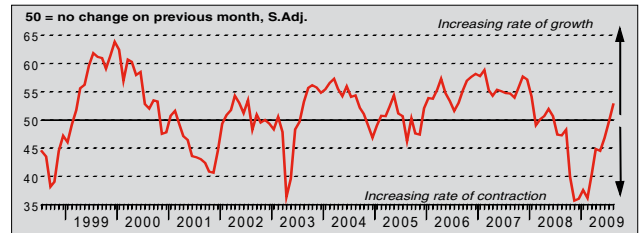


Following six months of reducing staff costs, Hong Kong companies signalled a rise in wage bills during August. The rate of increase in wages was solid (the sharpest since September 2008), and resulted from a rise in the proportion of panellists noting higher staff costs to around 6%. The majority of respondents suggested that labour costs had remained unchanged (94%).

Quantity of Purchases Index

Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	7.9	67.6	24.5	-16.6
	Apr	14.9	63.8	21.3	-6.5
	May	10.6	69.5	20.0	-9.4
	Jun	17.2	64.4	18.5	-1.3
	Jul	18.1	65.9	15.9	2.2
	Aug	15.1	76.0	8.8	6.3

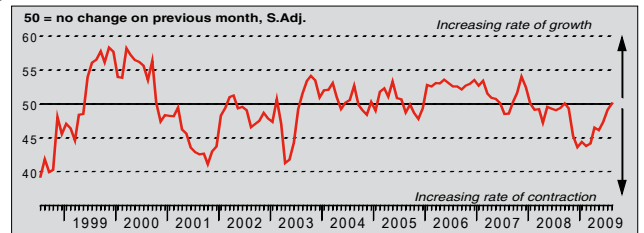


Following the marked growth in orders received during the month, and subsequent rise in production, Hong Kong companies reported a solid increase in purchasing activity. August was the first month that panellists had indicated a rise in purchasing volumes since June 2008, with activity increasing at the fastest pace in nineteen months. Moreover, the reported pace at which purchasing activity expanded was higher than the historical average for the survey.

Stocks of Purchases Index

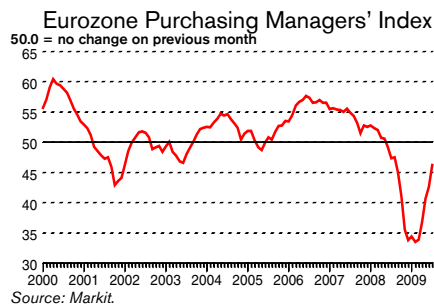
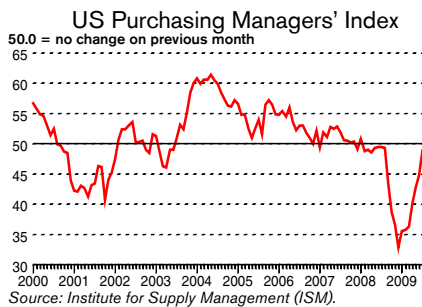
Q. Please compare your stocks of purchases this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	5.4	77.1	17.5	-12.0
	Apr	7.9	79.2	12.9	-5.1
	May	7.6	80.8	11.6	-3.9
	Jun	6.4	82.3	11.4	-5.0
	Jul	11.3	76.9	11.7	-0.4
	Aug	8.9	85.5	5.6	3.4



Companies in Hong Kong have been steadily reducing the rate at which stocks of purchases have been reduced in recent months. August data showed that the seasonally adjusted Stocks of Purchases Index posted slightly above the 50.0 no change level, providing evidence that companies had ceased with the cycle of inventory depletion, with there being a notable rise in the proportion of panellists indicating that their stocks of purchases had remained unchanged to 86%.

International PMI



The ISM US Manufacturing PMI registered below the 50.0 no change level during July for the eighteenth successive month posting 48.9, up from 44.8 in June. Therefore, conditions within the US manufacturing sector deteriorated during the month. However, the rate of decline was at its slowest in eleven months.

At 46.3 in July, up from 42.6 in June, the Markit Eurozone Manufacturing PMI® registered the second strongest rise in points terms in the history of the survey. Although still below 50.0 and therefore signalling a worsening of business conditions, the latest deterioration was the weakest for eleven months.

The headline HSBC China Manufacturing PMI™ remained above the neutral 50.0 level for the fourth month running in July, up from 51.8 to a twelve-month high of 52.8. The improvement in the PMI pointed to a further acceleration in the pace of recovery of the Chinese manufacturing sector.

Notes on the Data and Method of Presentation

The Hong Kong Purchasing Managers' Index is a monthly publication, researched and published by Markit Economics, featuring original research data from a survey of purchasing managers in companies operating in Hong Kong. The survey panel comprises around 250 companies that have been carefully selected to accurately represent the true structure of the Hong Kong economy, including manufacturing, services, retail and construction. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the tables show the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus half of those responding 'the same'.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stocks of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

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