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HSBC Hong Kong PMI

PMI data signalled a consolidation in Hong Kong growth during September, with expansion recorded for a second successive month

Summary

The headline HSBC Hong Kong Purchasing Managers' Index (PMI™) posted 51.8 in September, down from 52.8 in August. This signalled that the Hong Kong economy had expanded modestly during September, although the rate of growth eased on that recorded in August. A rise in incoming new business continued to stimulate expansion in production. However, as new order growth eased, so did the increase in output. Reflective of some positive expectations for future order volumes, purchasing activity continued to increase. In contrast, employment fell marginally, indicative of a degree of reluctance amongst companies to increase production capacity.

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.

Incoming new business grew robustly in September, although the rate of increase fell marginally from that recorded in August. Recovering business conditions led to increased contract wins, with the same true for orders received from mainland China (the pace of new order growth from China was largely unchanged since August). Higher overall new order levels stimulated a third successive rise in output, albeit one that was slower than August.

Backlogs continued to rise in September, and at a faster pace than in August. Moreover, the increase in outstanding business was the highest posted in twenty-one months. This suggested that, during the downturn, capacity had been reduced significantly, leaving little slack for the recent increases in order volumes.

Nonetheless, employment continued to fall, although only marginally, signalling that companies in Hong Kong are not yet actively looking to increase production capacity. Meanwhile, the pace of growth in staff costs eased since August, recording only a marginal rise in September.

Increased raw material prices started to permeate overall costs during September, driving a rise in input price inflation to a one-year high. The increase in purchasing costs was robust, although partially offset by the slower rise in staff costs. Amid sustained competition, output prices fell marginally during September, with companies unable to offset higher costs.

Reflective of increased order volumes, purchasing activity posted a further rise during September. The gain in the quantity of purchases was solid, and in line with the rate of growth recorded in August. While the increase in output slowed during September, growth in buying volumes remained broadly constant, as some panellists indicated that they were preparing for higher future production requirements. Pre-production inventory subsequently rose slightly in the month, with companies signalling a preference to maintain stock levels.

Despite the sustained rise in purchasing volumes, suppliers' delivery times were broadly unchanged on those reported in August.

Comment

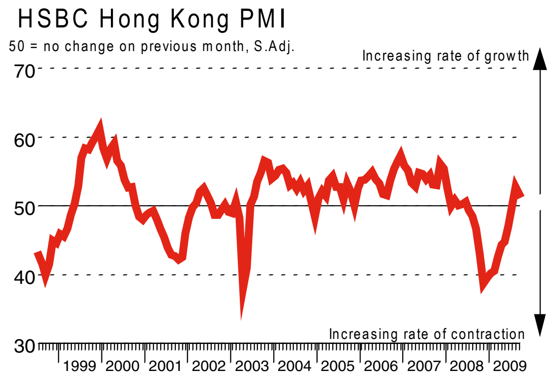
Commenting on the Hong Kong PMI survey, Janus Chan, Economics Analyst at HSBC said:

"Business activities in Hong Kong continued to improve, but growth is not yet from a broad base. Although companies have received more orders and there are increasing backlogs of work, companies are not ready to expand on the back of the delicate, albeit improving, global economy. Comparatively weak demand ensured the sustained contraction of output prices, but the rise in input costs due to increasing raw material prices will squeeze companies' profit margins. The labour market is therefore not expected to revive in the near-term, but should see improvement next year."

Key points

- Increasing new order volumes continued to drive growth in production.
- Confidence over future new business led companies to sustain rise in purchasing activity.
- Employment fell further.

Historical overview



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Notes to Editors:

The HSBC Hong Kong PMI Report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Hong Kong 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 'Report' shows 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 a 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.