

Embargoed until: 10:30 (HONG KONG), 5 October 2009



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

Key findings:

- 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.

The headline HSBC Hong Kong Purchasing Managers' Index (PMITM) 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

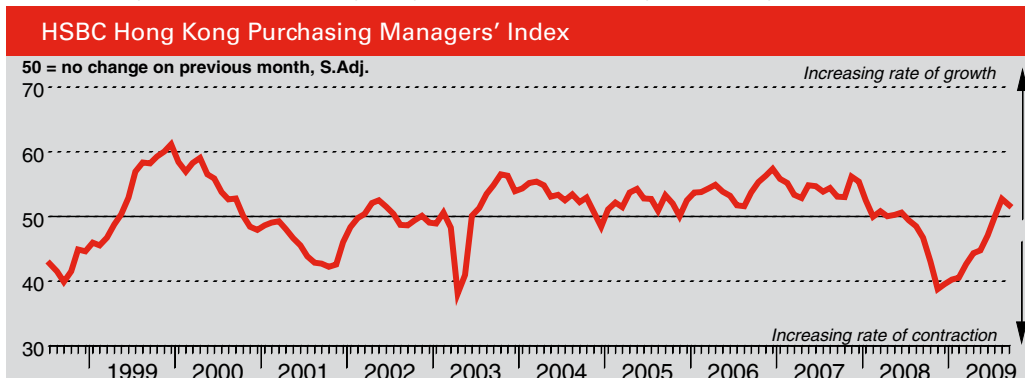
twenty-one months. This suggested that, during the downturn, capacity had been reduced significantly, leaving little slack for the recent increases in order volumes.

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.

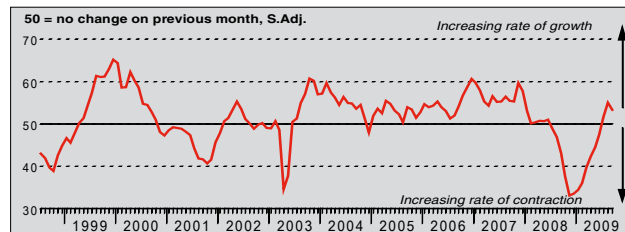


The HSBC Hong Kong Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the Hong Kong economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks 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	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
	Sep	22.1	67.9	10.1	12.0

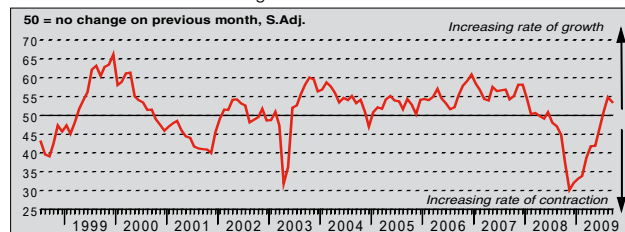


Growth of output was sustained for a third successive month during September, albeit at a slower rate than in August. Nonetheless, the increase in economic output was solid, and the latest data continued to represent a marked improvement on the situation at the end of 2008 and earlier this year when production was reduced at severe rates. Those panellists that recorded an increase in output (22% of the survey panel) linked growth to higher levels of new orders received.

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	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
	Sep	23.5	66.4	10.1	13.4

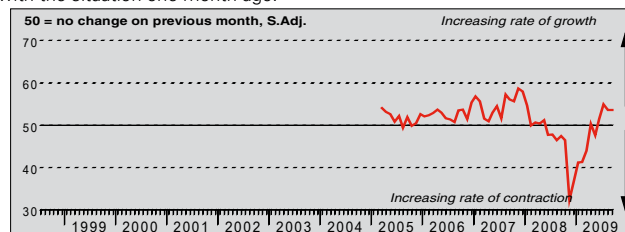


Despite easing slightly since August, growth of new orders received was sustained into a third successive month in September and at a solid pace. Around 24% of the survey panel commented on an increase in new work, generally reporting that improved business conditions had supported growth and led to a rise in new contracts. A little over 10% of respondents reported a fall in new work since the previous month, with a number commenting that underlying demand remained fragile.

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	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
	Sep	21.9	68.8	9.3	12.7

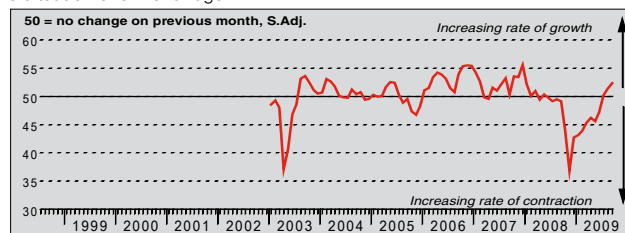


For the fourth successive month – and the fifth time in the last six – Hong Kong private sector companies reported an increase in new orders received from the Chinese mainland. The rate of growth moved broadly sideways since August and remained solid with around 22% of the survey panel registering an increase in new business (compared to just over 9% that signalled a decline). There were reports that growth reflected improved business conditions in China.

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	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
	Sep	15.6	77.2	7.2	8.4

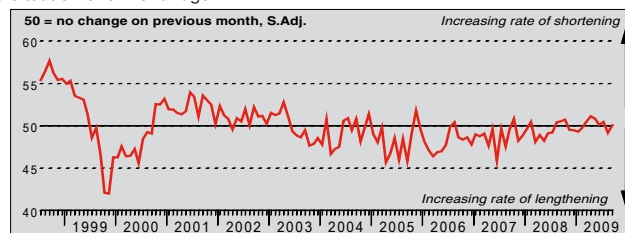


Backlogs of work increased for a third successive month in September, with the rate of growth accelerating since August to a twenty-one month high. The rise in work outstanding reflected reports of higher new order levels, which tested capacity at a number of companies. Nearly 16% of the survey panel reported a rise in backlogs compared to just over 7% which signalled a fall.

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	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
	Sep	1.6	96.7	1.7	0.0

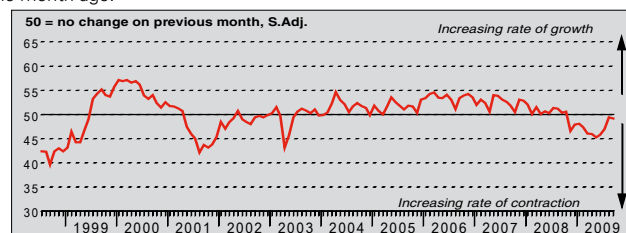


Average lead times were broadly unchanged since the previous month in September, rising only very slightly according to the Suppliers' Delivery Times Index which posted just above the 50.0 no-change mark. Nearly 97% of the survey panel reported that average lead times were unmoved, suggesting that supply-side capacity is broadly sufficient to meet current demand.

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	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
	Sep	3.9	92.4	3.6	0.3

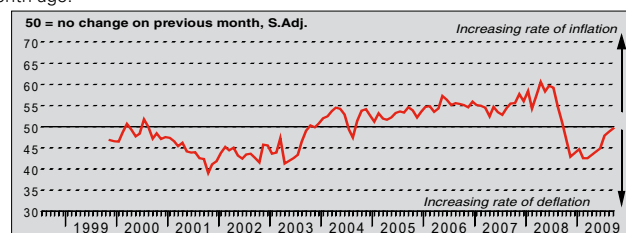


A further contraction in the size of the Hong Kong workforce was signalled in September, extending the current period of decline to eleven successive months. However, the rate of contraction was only marginal, with the majority of respondents (over 92%) signalling no change in payroll numbers during the latest survey period. There were even some reports that production capacity had been increased through the recruitment of extra personnel to satisfy higher new order levels.

Prices Charged Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Sep	6.5	87.7	5.7	0.8

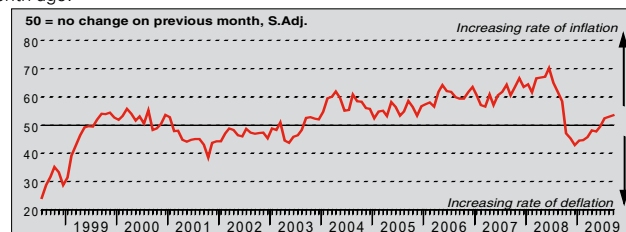


Average output prices charged by Hong Kong companies were slightly lower in September, extending the current period of deflation to twelve months as strong competitive pressures continued to dampen pricing power. Nearly 88% of the survey panel reported no-change in prices charged over the month, although there were some reports of inflation. In those instances, increased output charges were attributed to higher input costs and responses to exchange rate fluctuations.

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	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
	Sep	8.8	89.3	1.9	6.9

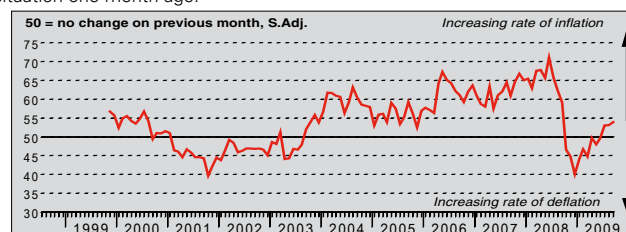


Input costs continued to rise in September, extending the current period of inflation to three months. Moreover, the rate at which charges increased was steeper than in August, rising to the strongest since September 2008. The acceleration of inflation was led by a steeper rise in raw material costs than one month ago, as staff costs increased at a slower pace. Nearly 90% of the survey panel reported that input costs were unchanged in September.

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	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
	Sep	11.1	85.2	3.7	7.4

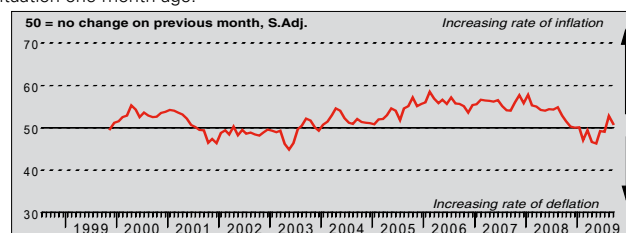


Purchase prices increased for a third successive month in September, with the rate of inflation accelerating to its strongest for a year. Around 11% of the survey panel registered an increase in purchasing costs during the month, generally attributing the latest rise to a general increase in raw material prices. Oil and oil-related goods were reported to have increased in price, while there was some evidence that a weak US dollar had led to inflation.

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	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
	Sep	2.7	95.6	1.7	0.9

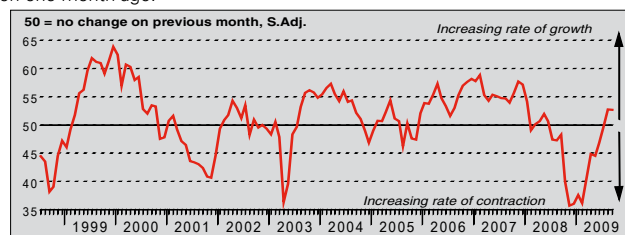


Average staff costs rose for a second successive month in September although, with the majority of companies reporting no change in costs (96%), the overall rate of inflation was only slight and weaker than August's eleven-month high. Moreover, there were some reports from panellists that salaries had been reduced.

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	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
	Sep	16.7	73.1	10.2	6.4

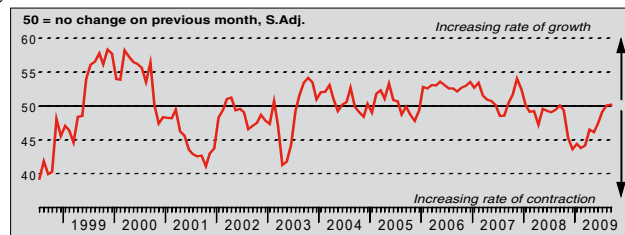


Purchasing activity increased for a second successive month in September. Moving broadly sideways since the previous month, the seasonally adjusted Quantity of Purchases Index signalled a similarly solid rate of growth to August, and around a sixth of the survey panel reported a rise in their input buying over the month. Companies reported that an increase in new orders and expectations of higher output requirements had stimulated the rise in purchasing activity during the month.

Stocks of Purchases Index

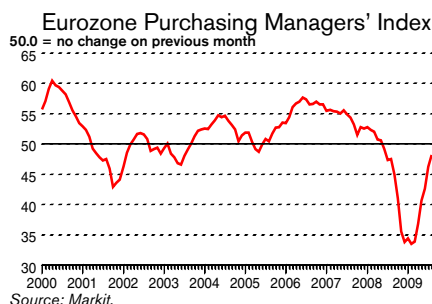
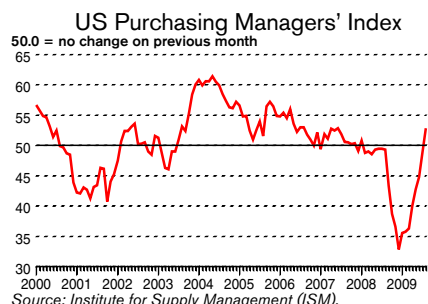
Q. Please compare your stocks of purchases this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	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
	Sep	6.4	86.9	6.7	-0.2



Stocks of purchases increased during September for a second successive month as a number of companies anticipated continued growth of orders and production by raising inventories of pre-production goods. However, the rate of growth was only marginal as the majority of companies kept their stock levels unchanged since the previous month, and broadly similar proportions of companies indicated a rise in inventories as signalled a decline.

International PMI



August's ISM survey signalled the first growth of the US manufacturing sector in nineteen months. The headline PMI recorded 52.9, up for an eighth successive month to maintain the upward trend seen since the index registered a low of 32.9 back in December 2008. Growth was the strongest since June 2007.

The Markit Eurozone Manufacturing PMI[®] reached a fourteen-month high of 48.2 in August, up from 46.3. Although the PMI has now remained below the 50.0 neutral mark for fifteen successive months – the most prolonged sequence in its history – it has recovered sharply since February's record low.

Latest data signalled that growth of the Chinese manufacturing sector accelerated in August. Substantial increases in output and new orders were recorded over the month. The headline HSBC China Manufacturing PMI[™] rose to 55.1, from 52.8 in the previous month, its highest level since April 2008.

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 300 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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