

HSBC Hong Kong PMI

PMI data signalled the fastest growth of the Hong Kong economy in twenty-two months

Summary

The headline HSBC Hong Kong Purchasing Managers' Index (PMI™) posted 54.6 in October, up from 51.8 in September. This signalled a robust improvement of business conditions in Hong Kong during October. Moreover, the rate of expansion recorded accelerated solidly since September to its highest in twenty-two months.

Incoming new business received by companies in Hong Kong increased markedly in October, with the rate of growth accelerating robustly since September. Recovering economic conditions were cited as the cause of revived demand. New orders received from mainland China posted a robust rise, with growth increasing marginally since September.

The growth in overall new order volumes stimulated a further rise in output during October. The rate of expansion in production increased robustly since September to its highest in twenty-two months. However, this was insufficient to prevent a rise in backlogs, which grew for the fourth month in succession, suggesting capacity constraints were emerging in the Hong Kong economy.

Supporting increased production, employment levels were reported to have risen in October for the first time in twelve months. Meanwhile, the rate at which salaries were increased was broadly unchanged.

Purchasing activity increased markedly in response to higher output requirements, accelerating solidly since September to its fastest pace in twenty-two months. However, stocks of pre-production inventory grew marginally, indicating that an element of buying activity had been utilised to expand stocks of purchases.

Purchasing activity increased despite a marked rise in raw material costs reported in October. The cost of purchases rose at its fastest pace in thirteen months, and was above the historical average for the survey. This drove the overall rise in input costs reported by Hong Kong companies during the month.

Due to persistent competition in the market and promotional activity, output prices were reduced for the thirteenth month in succession. However, the rate at which charges decreased was the slowest recorded in that period.

Comment

Commenting on the Hong Kong PMI survey, Hongbin Qu, Chief Economist for China at HSBC said:

"It is encouraging to see the HSBC Hong Kong PMI accelerate to 54.6 in October, the fastest pace since December 2007. The faster expansion is more broad-based compared with the previous month. In particular, the marked improvement in new orders has led to stronger production expansion and prompted companies to hire additional workers. As a result, the employment index returned to slightly above the 50-neutral level for the first time since October 2008. Yet, since the companies are still suffering from margin squeeze, with output prices falling and input prices accelerating, this may restrict the pace of hiring new workers in the coming months."

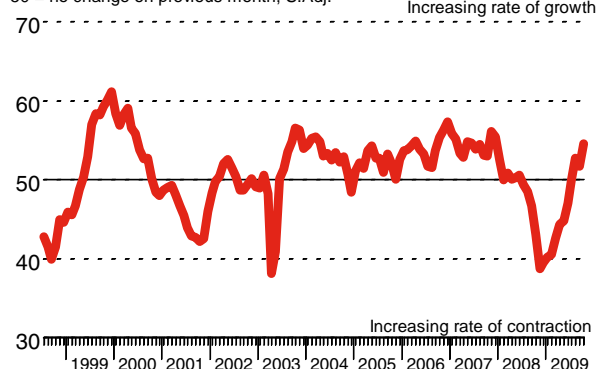
Key points

- Marked growth in new order volumes stimulated a further rise in output.
- Backlogs increased solidly, while employment rose slightly.
- A competitive market sustained output price decreases, although input costs rose further.

Historical Overview

HSBC Hong Kong PMI

50 = no change on previous month, S.Adj.



For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China
Telephone +852 2822 2025
Email hongbinqu@hsbc.com.hk

Janus Chan, Economics Analyst
Telephone +852 2996 6975
Email januschan@hsbc.com.hk

Laine Santana, Media Enquiries
Telephone +852 2822 4918
Email lainesantana@hsbc.com

Markit

Sarah Ledger, Economist
Telephone +44-1491-461-050
Email sarah.ledger@markit.com

Claire Gorman, Corporate Communications
Telephone +44-20-7064-6032
Email claire.gorman@markit.com

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: 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.

HSBC:

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 8,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,422 billion at 30 June 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading, global financial information services company with over 1,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place.

About Markit Economics:

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.

The intellectual property rights to the HSBC Hong Kong PMI provided herein is owned by Markit Group 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. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.