

Embargoed until: 10:30 (HONG KONG), 4 November 2009

HSBC Hong Kong PMI

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

Key findings:

- 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.

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. The improvement in operating conditions was led by marked growth in new business received. Production capacity was largely utilised in the month, which firms responded to by implementing expansionary initiatives. However, pricing power remained low, and input costs rose further.

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 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. However, latest data suggested that the main boost to overall new order growth came from business received externally from China.

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.

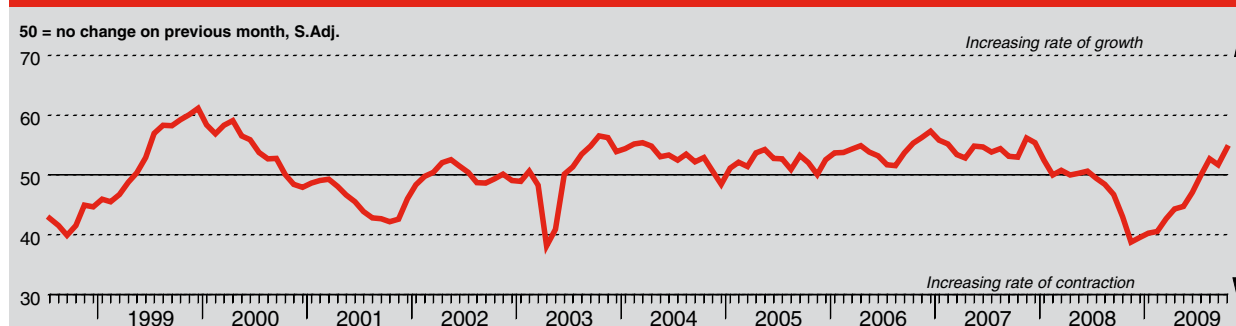
Supporting increased production, employment levels were reported to have risen in October for the first time in twelve months. Meanwhile, the rate at which salaries were increased was broadly unchanged since September.

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.

HSBC Hong Kong Purchasing Managers' Index (PMI™)

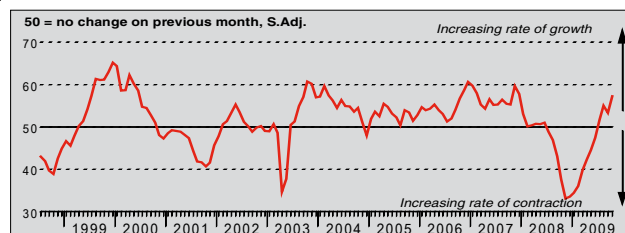


The HSBC Hong Kong Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the Hong Kong economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks 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	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
	Oct	30.1	56.2	13.7	16.4

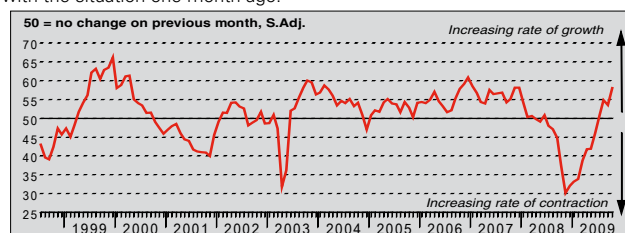


The seasonally adjusted Output Index posted above the 50.0 no-change threshold in October, indicating expansion of production. The sequence of sustained growth extended to four consecutive months. Moreover, the increase in output was marked, and the fastest in twenty-two months. The increase in output recorded during the month was stimulated by a further rise in new order volumes received by companies operating in Hong Kong.

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	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
	Oct	29.5	60.1	10.4	19.0

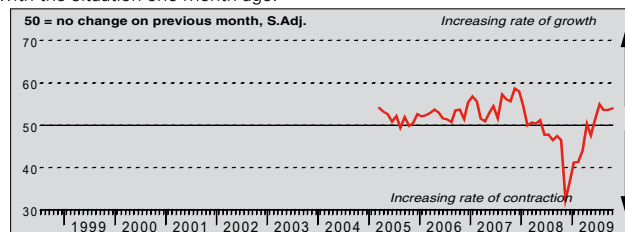


Incoming new business increased markedly during October, and accelerated robustly since September. Approximately 30% of panellists reported a rise in new order volumes from the previous month, compared to only 10% that recorded a fall. The rise in new business was attributed to recovering economic conditions. Incoming new business has now been expanding for four months, with the current rate of growth the highest in twenty-two months.

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	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
	Oct	20.7	67.0	12.3	8.4

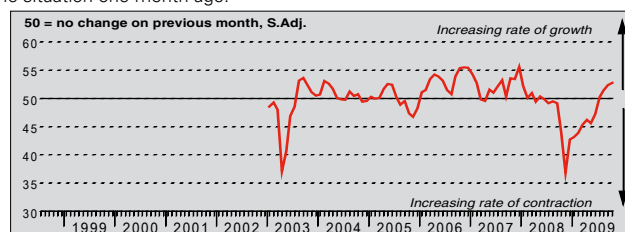


New business received from mainland China increased robustly in October, and accelerated slightly since September. New orders from China have now increased in each of the last five months, with the current rate of growth the second highest in that period. Approximately 21% of panellists reported a rise in new order volumes from the previous month, and commented that this was a result of recovering economic 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	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
	Oct	15.1	73.2	11.7	3.4

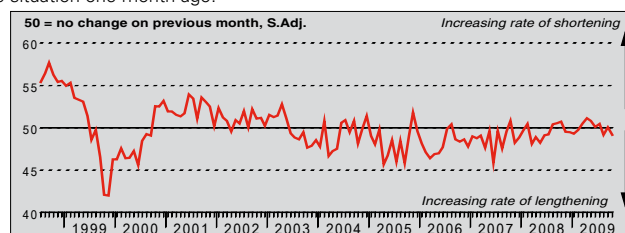


Despite the marked increase in output, backlogs rose further in October, extending the sequence of sustained expansion to four consecutive months. The rate of accumulation in outstanding business accelerated marginally since September to its highest in twenty-two months. Panellists noted that higher order volumes had been the cause of increased backlogs. Nonetheless, the majority of panellists (approximately 73%) reported that outstanding business had remained unchanged since September.

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	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
	Oct	0.5	96.9	2.6	-2.1

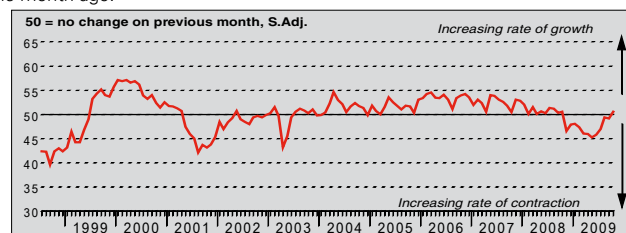


Suppliers' delivery times lengthened marginally in October. This was underpinned by the vast majority of panellists (approximately 97%) reporting that they had experienced no change in lead times, continuing the trend in recent months. Where a deterioration in vendor performance was recorded in October, this was attributed to increased order volumes. Additionally, some panellists noted labour shortages at suppliers, and also a shortfall in stock.

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	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
	Oct	7.3	89.0	3.7	3.6

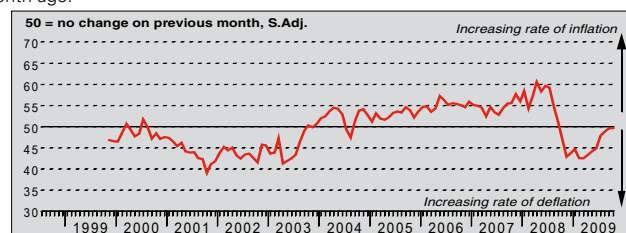


Companies operating in Hong Kong reported a marginal rise in employment levels during October, ending an eleven-month period of falling staff numbers. The rise in employment was attributed to increased order volumes received in October, therefore requiring firms to boost production capacity. However, only about 7% of panellists reported a rise in employment during the month, with the vast majority (89%) indicating that staffing levels had remained unchanged since September.

Prices Charged Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	6.5	86.2	7.3	-0.8

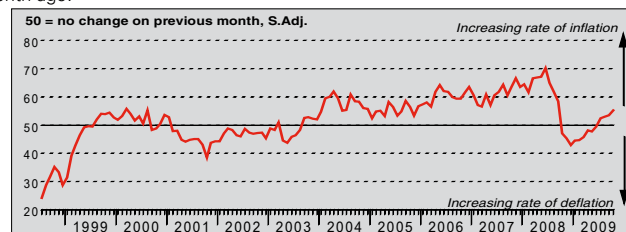


The seasonally adjusted Output Prices Index posted below the 50.0 no-change threshold in October, indicating a fall in charges during the month. Output prices have been reducing within the Hong Kong private sector over the past thirteen months, although the rate of decline has eased in each of the last seven months. Panellists noted that the sustained fall in output prices resulted from promotional activity and negotiations initiated by clients to reduce charges.

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	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
	Oct	14.7	83.1	2.2	12.5

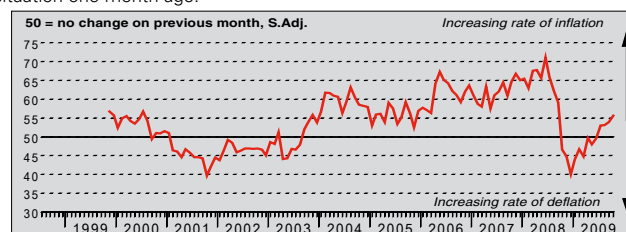


Overall input prices increased markedly during October, driven predominately by a rise in material purchase costs. October data represented the fourth successive month of input cost rises within the Hong Kong economy, with the current rate of increase the fastest in that period. Nearly 15% of panellists reported higher overall input costs in October from the previous month, compared to only 2% that indicated a fall in input prices.

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	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
	Oct	13.5	84.3	2.2	11.3

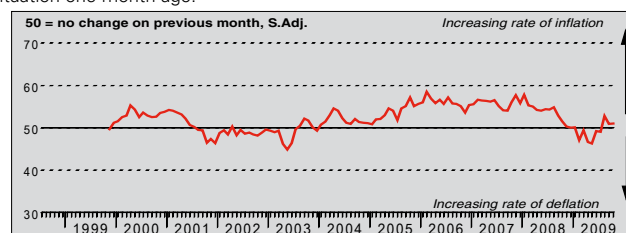


Companies operating within Hong Kong reported a marked rise in purchase prices during October. Moreover, the rate of increase accelerated since September to its highest in thirteen months. However, the pace at which purchase costs rose was only marginally faster than the historical average for the series. Panellists cited higher raw material prices as the causes of increased purchase prices, which have now been rising for four consecutive months.

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	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
	Oct	2.1	96.6	1.2	0.9

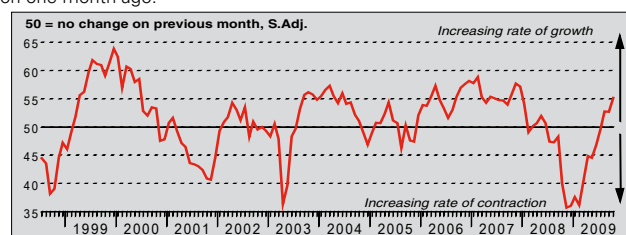


October data signalled a marginal rise in staff costs during the month, with the rate of increase broadly unchanged since September. Wages have been rising over each of the past three months, despite October being the first month to indicate expansion in employment levels. However, the pace of increase in salaries during October remained below the historical average for the series, and the vast majority of panellists (approximately 97%) reported that they had left wages unchanged since September.

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	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
	Oct	22.9	62.2	14.9	8.1

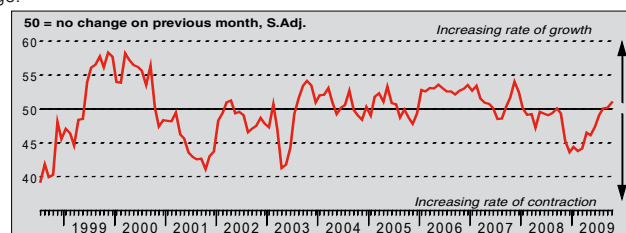


Purchasing activity increased markedly during October, with approximately 23% of panellists reporting a rise in buying volumes since September. The latest pace of growth in purchasing activity was the fastest in twenty-two months, and robustly above the historical average for the series. The substantial rise in new order volumes, and subsequent increase in production requirements, were cited as the underlying reason for higher purchasing levels.

Stocks of Purchases Index

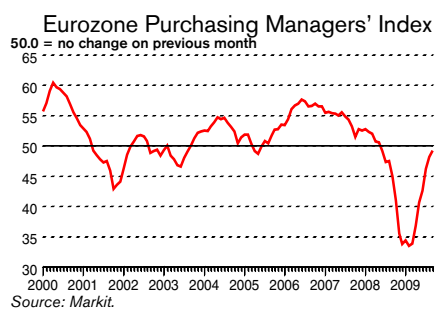
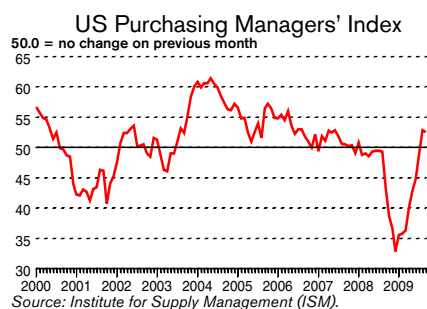
Q. Please compare your stocks of purchases this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	12.2	78.5	9.3	3.0



Pre-production inventories increased marginally in October, as recovering order volumes led companies to expand stocks of purchases ahead of expected output requirements. The respective index registered the fastest pace of growth in stocks in twenty-two months. This followed two months where the seasonally adjusted Stocks of Purchases Index had posted only fractionally above the 50.0 no-change level, which indicated a period of stabilisation in inventories.

International PMI



September's ISM survey signalled growth of the US manufacturing sector for the second successive month. The headline PMI recorded 52.6, which was down marginally from the 52.9 recorded in August. Nonetheless, this was above the historical average for the series, and the second fastest in twenty-seven months.

The Markit Eurozone Manufacturing PMI[®] reached a sixteen-month high of 49.3 in September, up from 48.2. Although the PMI has now remained below the 50.0 neutral mark for sixteen successive months – the most prolonged sequence in its history – it has recovered sharply since February's record low.

Growth of the Chinese manufacturing sector was maintained in September. The headline HSBC China Manufacturing PMI[™] remained broadly unchanged from a month earlier, registering 55.0 from 55.1 in August, and has now remained above the neutral level of 50.0 for six consecutive months.

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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