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HSBC Hong Kong PMI

Growth of Hong Kong private sector economy at two-year high.

Key findings:

- Marked rise in new orders from mainland China drove overall growth in incoming new business.
- Backlogs increased robustly, indicating pressure on operating capacity.
- Input costs rose further, led by higher purchase prices.

The headline HSBC Hong Kong Purchasing Managers' Index (PMI™) posted 55.9 in November, increasing from 54.6 in October. At a two-year high, this signalled a marked improvement of business conditions in Hong Kong during the month. New order growth continued to drive the overall expansion within the Hong Kong economy. However, there were signs of growing capacity constraints during the month. This led to employment rising at the fastest pace in twenty-two months. Inflationary pressures remained prevalent in November, driven by raw material cost increases.

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 growth increased markedly in November, boosted by demand from both within and outside of mainland China. Overall new orders expanded at the fastest pace in thirty-five months, while the rate of expansion of incoming new business received from mainland China accelerated to the fastest in two years.

Reflective of strong growth in incoming new business, output expanded further in November, and at a marked rate. November's rise in activity was the fastest in two years.

Data suggested that private sector companies operating within

Hong Kong maintained efforts to increase operating capacity, in light of further growth in new order volumes. Employment rose for a second successive month, with the pace of expansion at a twenty-two month high.

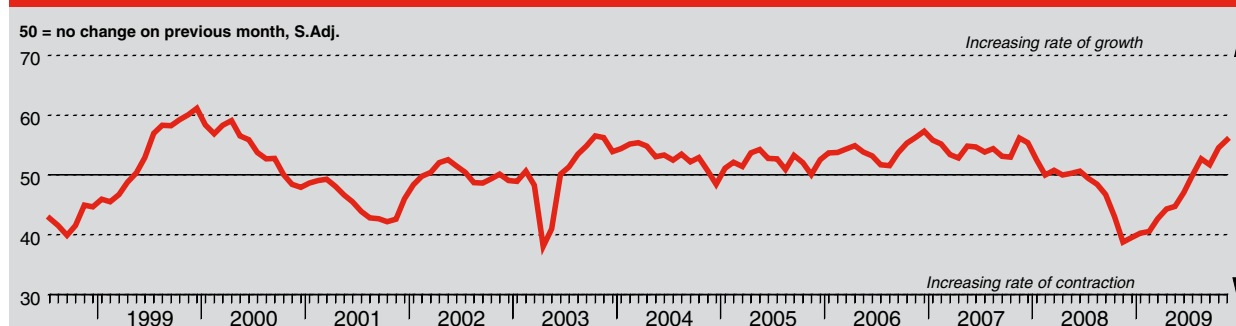
Similarly, purchasing activity increased for a fourth successive month, with growth accelerating since October to the steepest in twenty-three months. The latest rise in buying activity was underpinned by higher output requirements. Pre-production inventories increased modestly during November, with the expansion marginally faster than that recorded in October.

Reflective of the sustained rise in purchasing activity, suppliers' delivery times lengthened for a second consecutive month, suggesting building pressure on capacity at suppliers.

Data indicated that the rise in output seen during November was insufficient to fully meet order obligations, as backlogs increased for a fifth successive month. Moreover, the rise in outstanding business at companies in Hong Kong was the steepest in twenty-three months.

Input costs continued to rise in Hong Kong during November, driven by a marked increase in purchase costs. Staff costs increased modestly and at a rate only slightly higher than reported in October. Indicative of improving demand, output prices increased marginally during the month, although strong competition prevented a steeper rise in charges.

HSBC Hong Kong Purchasing Managers' Index (PMI™)

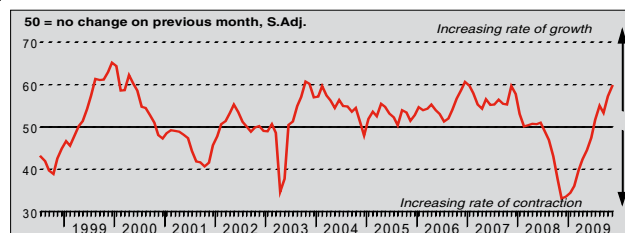


The HSBC Hong Kong Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the Hong Kong economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks 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	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
	Nov	24.1	66.3	9.7	14.4

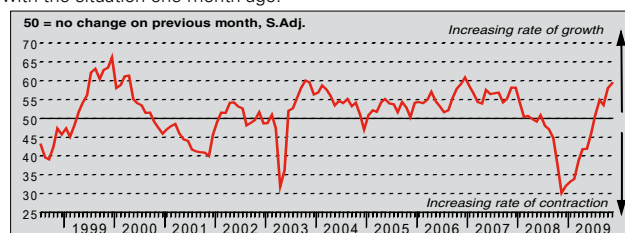


The seasonally adjusted Output Index posted well above the 50.0 no-change threshold in November, indicating a further strong rise in output. Activity has increased for five successive months, with the latest growth the fastest in two years and markedly above the historical average for the series. Panellists noted that the ongoing recovery in economic conditions had boosted new order intakes, leading to the rise in production.

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	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
	Nov	22.5	69.4	8.1	14.4

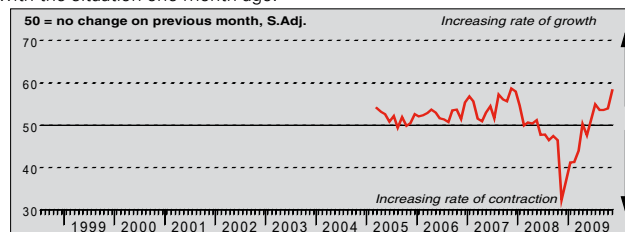


Private sector companies in Hong Kong reported a rise in new orders received during November. The increase in incoming new business was marked and accelerated since October to the highest in thirty-five months. Twelve months after the peak of the downturn and the unprecedented rate of contraction recorded in November 2008, the current rate of growth is reflective of the strong recovery in economic conditions experienced in Hong Kong.

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	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
	Nov	44.0	54.2	1.8	42.2

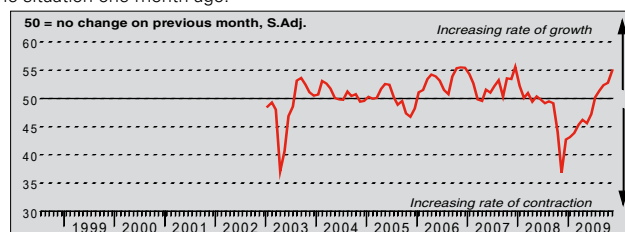


Incoming new business received from mainland China increased markedly during November. Moreover, the rate of growth in new orders accelerated robustly since October to its highest in twenty-four months. New business from mainland China has increased in seven of the past eight months. Panellists that reported a rise in new order volumes received from mainland China (44%) noted that this was primarily due to the ongoing improvement in 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	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
	Nov	14.5	81.4	4.2	10.3

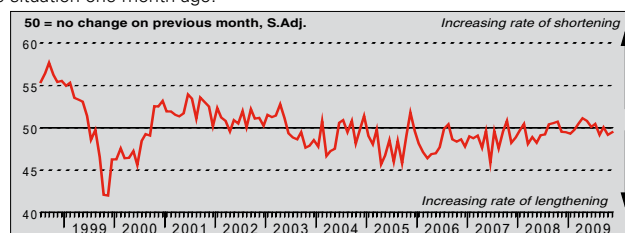


Backlogs of work increased robustly during November, with the pace of accumulation accelerating since October. The growth in outstanding business at private sector companies in Hong Kong resulted from the marked expansion of new order volumes received during the month. Backlogs have been rising in each of the past five months, with November's increase the highest in twenty-three months and faster than the historical average for the series.

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	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
	Nov	0.8	98.3	1.0	-0.2

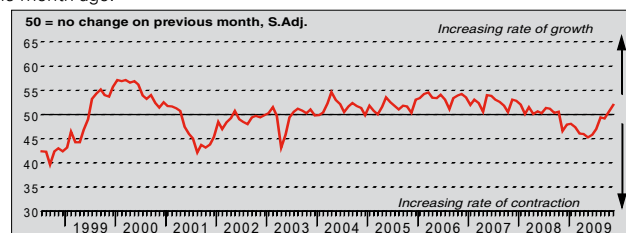


Suppliers' delivery times lengthened in November for the second successive month. However, the pace at which lead times increased was only marginal. The lengthening in delivery times was reflective of the marked rise in purchasing activity recorded during November, indicating that pressure at suppliers was starting to build. However, the vast majority of panellists (approximately 98%) reported that lead times were unchanged since October.

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	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
	Nov	5.5	94.4	0.1	5.4

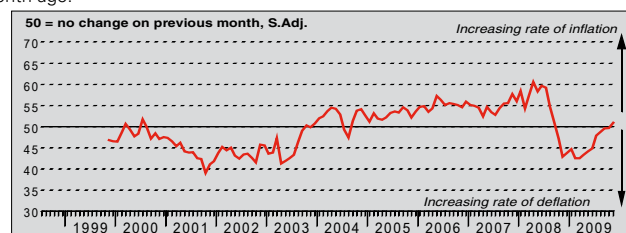


November data signalled a modest rise in headcounts, as the seasonally adjusted Employment Index posted above the 50.0 no-change threshold for a second successive month. Growth of staffing levels accelerated since October to its highest in twenty-two months. Panellists reported that higher new order volumes had led to increased activity requirements, in turn supporting hiring.

Prices Charged Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Nov	4.4	93.5	2.1	2.3

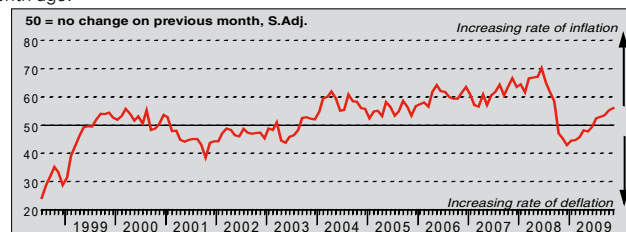


Output prices increased marginally during November, ending a thirteen-month period of falling charges. Panellists reported that improving economic conditions had boosted demand, therefore allowing output prices to be raised slightly. However, competition remained prevalent and prevented charges from rising further. Reflective of this, the vast majority of respondents (approximately 94%) reported that output prices had remained unchanged since October.

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	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
	Nov	13.0	85.1	1.9	11.1

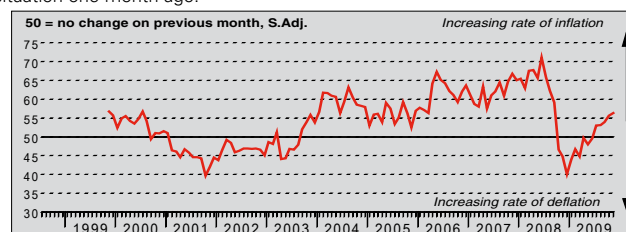


Overall input costs increased markedly in November, with inflation accelerating since October. Companies operating within Hong Kong have reported rising costs in each of the last five months, with November's increase the fastest since September 2008. Higher purchasing costs remained the main driver of the overall increase in input prices, although rising labour costs were also reported.

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	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
	Nov	11.6	87.5	0.9	10.7

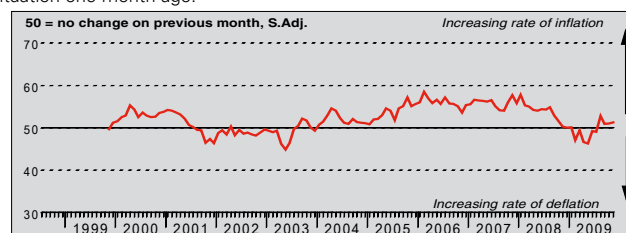


Purchase prices rose further in November, with the rate of increase the strongest in fourteen months. Anecdotal evidence suggested that higher raw material costs had led to the rise in purchase prices during the month. The latest rate of growth was above the historical average for the survey, with the seasonally adjusted Purchase Prices Index posting above the 50.0 no-change threshold for the fifth successive month.

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	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
	Nov	2.7	97.3	0.0	2.7

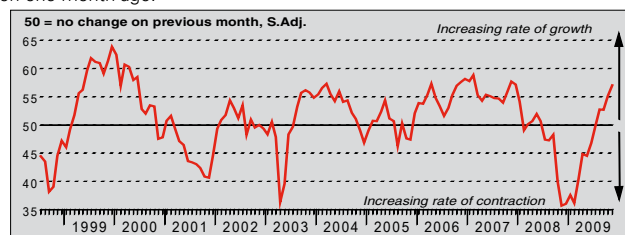


November data signalled a further rise in staff costs, extending the sequence of sustained increases in wages to four months. However, the rate of growth in salaries was only modest and below the long-run series average. However, the majority of panellists reported that salaries had remained unchanged since October.

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	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
	Nov	20.7	72.1	7.2	13.4

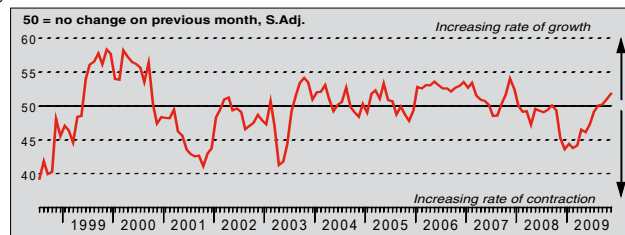


Purchasing activity increased markedly in November, as strong new order growth stimulated a further rise in output requirements. Approximately 21% of panellists reported a higher quantity of purchases in November compared to October. The expansion in purchasing activity accelerated to the fastest in twenty-three months. Moreover, November's growth in purchasing volumes was markedly higher than the historical average for the series.

Stocks of Purchases Index

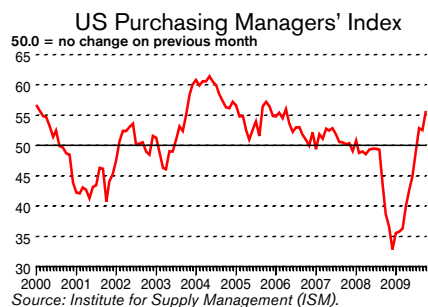
Q. Please compare your stocks of purchases this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	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
	Nov	11.1	82.4	6.6	4.5



The seasonally adjusted Stocks of Purchases Index posted above the 50.0 no-change threshold in November, thereby signalling a rise in pre-production inventories during the month. The increase in stocks of purchases accelerated marginally since October, in line with higher purchasing activity, and was the fastest for twenty-three months. However, the majority of panellists (approximately 82%) reported that stocks of purchases remained unchanged since October.

International PMI



October's ISM survey signalled growth of the US manufacturing sector for the third successive month. The headline PMI recorded 55.7, accelerating from the 52.6 recorded in September. This was above the historical average for the series, and the fastest in three-and-a-half years.

At 50.7, up from 49.3 in September, the Markit Eurozone Manufacturing PMI® for October indicated the first improvement in business conditions since May of last year. This marked an end to what has been by far the longest and deepest downturn since PMI data were first collected in 1997.

The headline HSBC China Manufacturing PMI™ rose to 55.4 in October, from 55.0 in the previous month, signalling that growth of the Chinese manufacturing sector was maintained at the start of Q4. Data indicated that operating conditions in the sector improved at the sharpest rate for eighteen 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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