HSBC Purchasing Managers' Index 2010

compiled by markit

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HSBC Hong Kong PMI

Growth of Hong Kong private sector economy sustained for sixth successive month.

Key findings:

- New order growth remained marked, despite easing since November.
- Employment rose for third successive month.
- Higher raw material costs led to substantial rise in overall input prices.

December survey data, compiled by Markit for HSBC, indicated further growth of the Hong Kong private sector economy. New order growth continued to support the overall expansion, although the pace of increase moderated since November. Companies maintained efforts to increase capacity, with employment rising for a third successive month. Inflationary pressures appeared to build in December, with inflation of both input and output prices at sixteen-month highs.

The headline HSBC Hong Kong Purchasing Managers' Index (PMI™) – a composite index designed to provide timely indications of changes in prevailing business conditions in the Hong Kong economy – posted 55.2 in December. PMI readings above 50.0 signal an improvement in business conditions while readings below 50.0 signal deterioration. Therefore, despite a marginal easing in the index since November, the latest reading signalled a marked improvement of business conditions in Hong Kong during the month.

New orders increased markedly, extending the sequence of sustained expansion to six months. However, the pace of growth eased marginally from the thirty-five month high recorded in November.

Data suggested that demand from mainland China remained a key driver of new order growth in December. New orders received from mainland China rose markedly and at the fastest pace since November 2007.

Reflective of the sustained rise in incoming new business, private sector companies in Hong Kong increased output for a sixth successive month. However, the pace of growth of output eased from November's two-year high.

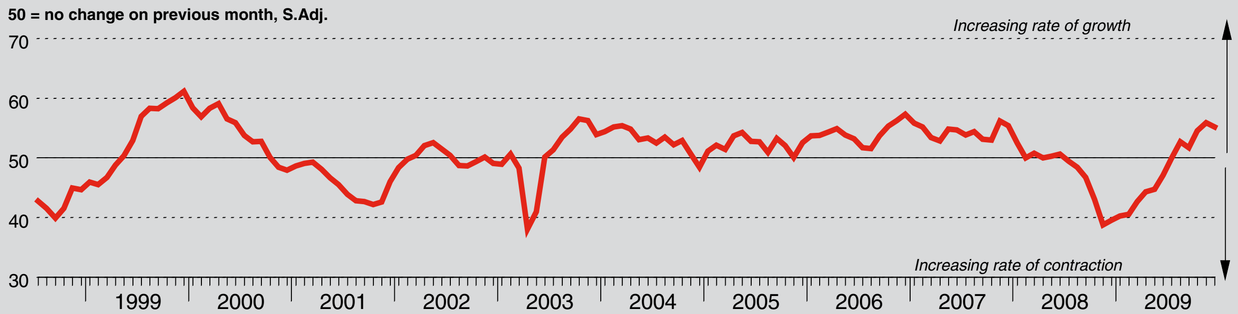
Despite the marked expansion in output, backlogs of work increased further in December. Outstanding business at companies in Hong Kong has increased over each of the last six months. Moreover, the latest rise was the steepest in the series history, suggesting that operating capacity was under growing pressure.

Correspondingly, employment rose for a third month in succession, although the pace of increase slowed slightly since November.

Purchasing activity also rose to accommodate higher output requirements, although the rate of growth eased marginally. Pre-production inventories increased as a result, albeit only modestly. Some panellists indicated that they were looking to build stocks to prepare for future new business growth.

Overall input prices continued to rise in December, with cost inflation the highest in sixteen months. A further increase in purchase prices was the main driver behind the substantial rise in overall costs, although wage inflation continued to accelerate in December. Output prices also increased in December, allowing companies to partially pass on higher purchase prices to customers.

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.

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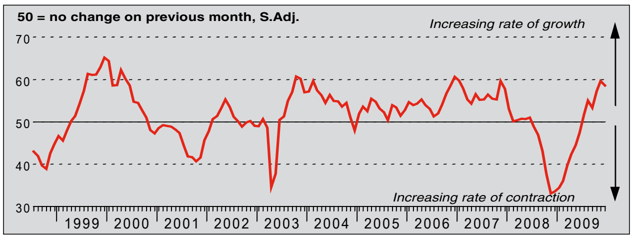
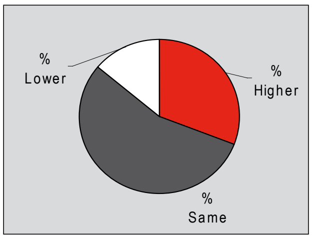
Output Index

Q. Please compare your production/output this month with the situation one month ago.

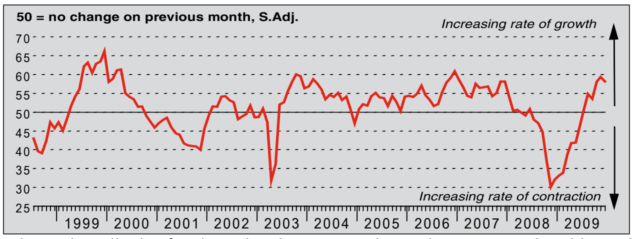


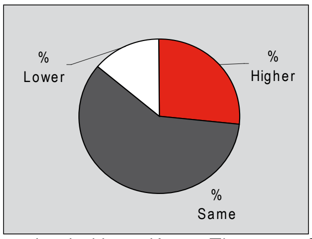


The seasonally adjusted Output Index posted above the 50.0 no-change threshold in December, indicating that business activity within the Hong Kong private sector economy had increased for a sixth consecutive month. The rate of output growth eased marginally since November, although remained marked and comfortably above the historical average for the series. The rise in output was attributed to higher new order volumes received in the month.

New Orders Index

Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.

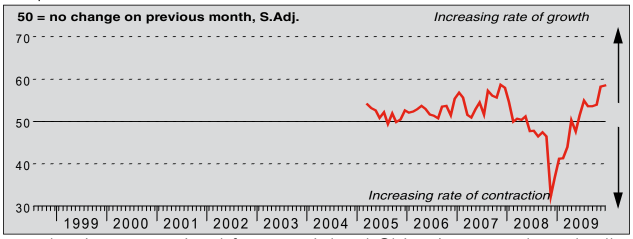


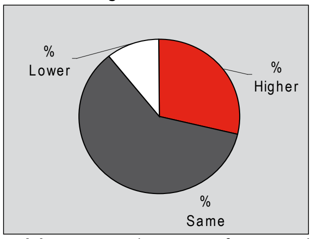


December data signalled a further rise in new order volumes received by private sector companies in Hong Kong. The rate of new order growth eased marginally from the thirty-five month high reported in November, although remained comfortably above the historical average for the series. Panellists noted that the ongoing recovery in global economic conditions had resulted in improved sales and new clients being obtained.

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.

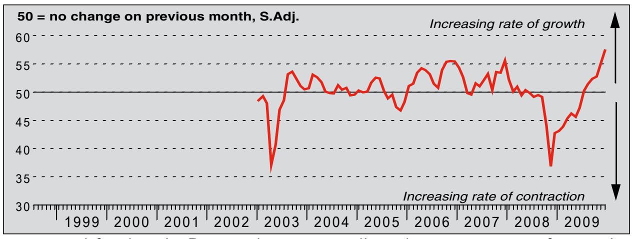


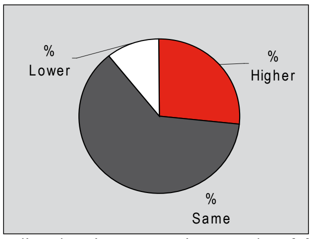


Incoming new business received from mainland China increased markedly during December. Moreover, the rate of expansion was the fastest since November 2007. A rise in incoming new business was reported by 29% of panellists during December. Growth was attributed to both new clients and additional sales to existing customers being won as a result of the ongoing recovery in global 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.

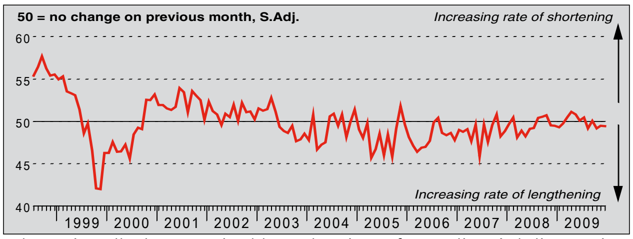


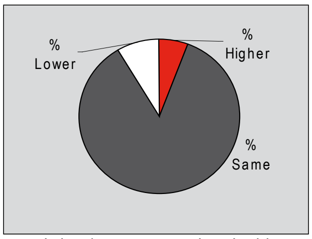


Backlogs increased further in December, extending the sequence of sustained rises in outstanding business to six months. Moreover, the rate of growth was the fastest in the series history, with nearly 27% of panellists reporting a rise in unfinished work since November. Companies indicating an increase in backlogs noted that this was primarily due to the rise in incoming new business.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

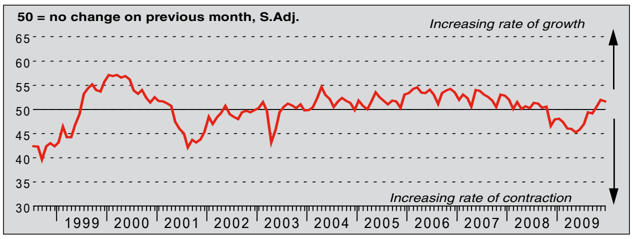


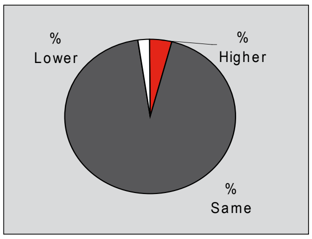


December data signalled a marginal lengthening of suppliers' delivery times, as purchasing activity by companies in Hong Kong continued to rise. This was the third successive month where longer lead times have been indicated. The extent to which vendor performance deteriorated was unchanged from November's marginal pace. The majority of panellists (approximately 86%) indicated that lead times were unchanged since November.

Employment Index

Q. Please compare the level of employment at your unit this month with the situation one month ago.

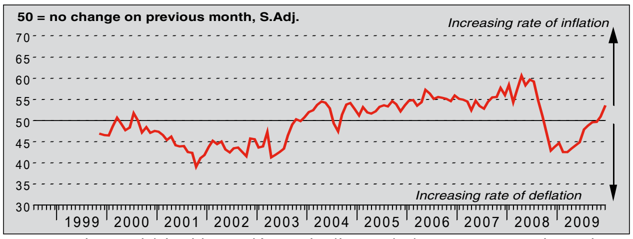


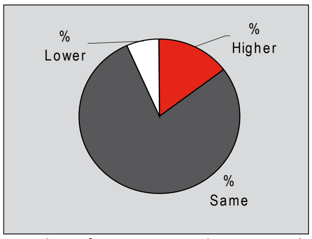


Staffing levels at Hong Kong private sector firms increased in December, as the seasonally adjusted Employment Index posted above the 50.0 no-change threshold for a third successive month. The rate at which headcounts increased was modest, and eased slightly from the twenty-two month high recorded in November. Panellists reported that, due to increasing new order volumes, it was necessary to employ extra staff to raise output accordingly.

Prices Charged Index

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

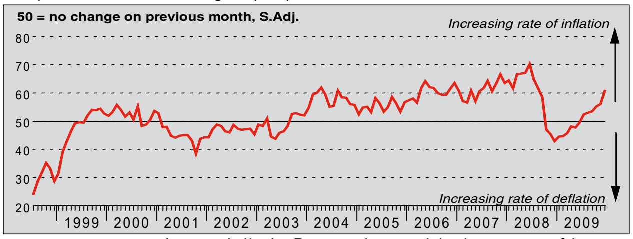


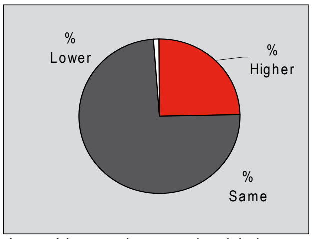


Companies operating within Hong Kong indicated that output prices increased during December for a second successive month. The rate of inflation of charges accelerated since November to the highest in sixteen months. The proportion of panellists indicating a rise in output prices from the previous month rose from approximately 4% in November to nearly 15% in December. Anecdotal evidence suggested that the improvement in economic conditions, and therefore demand, allowed charges to be increased to reflect the rise in input costs.

Overall Input Costs Index

Q. Please compare the overall average input prices this month with the situation one month ago.

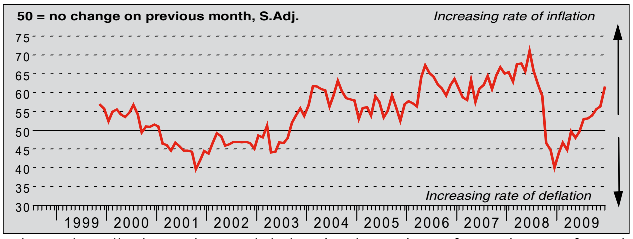


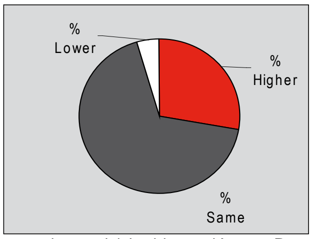


Overall input costs rose substantially in December, with the pace of increase accelerating since November to the highest since August 2008. Input costs have now been rising for six successive months, with the latest inflation markedly above the historical average for the series. Both purchase prices and staff costs increased in the latest month. The rise in purchase prices was at a markedly faster pace than that of salaries, therefore predominately driving the substantial increase in overall input costs.

Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.

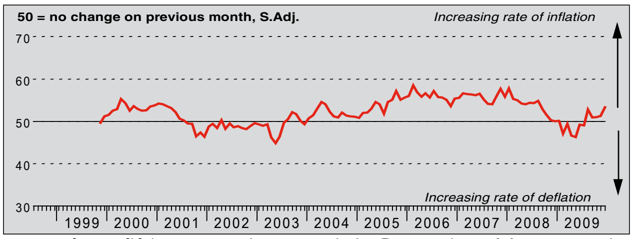


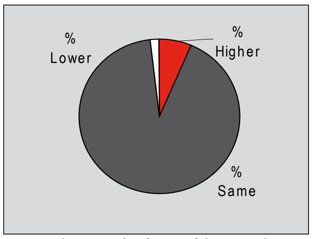


December data signalled a substantial rise in the price of purchases faced by companies operating within Hong Kong. Purchase cost inflation accelerated since November to the steepest in sixteen months and remained above the historical average for the series. Nearly 28% of panellists reported a rise in purchase prices in December, and cited higher raw material prices and unfavourable exchange rate variations as the principal reasons.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

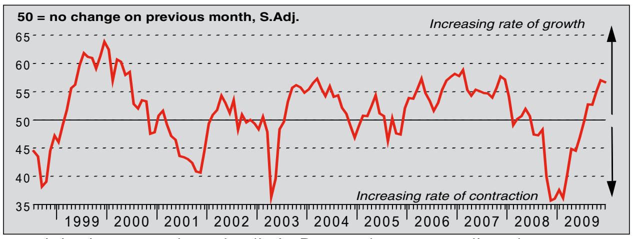


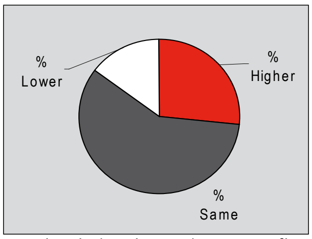


Staff costs rose for a fifth successive month in December. Moreover, the rate of increase accelerated since November to the fastest since August 2008. Where a rise in salaries was reported, this was generally attributed to higher wage expectations in the labour market. However, the vast majority of panellists (approximately 92%) indicated that staff costs remained unchanged since November.

Quantity of Purchases Index

Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.

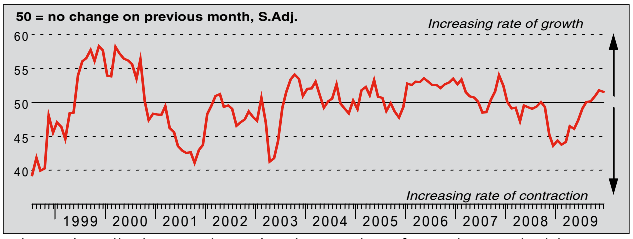


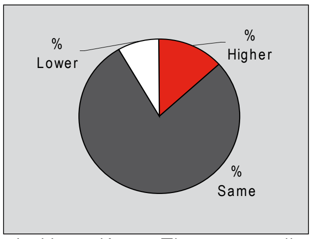


Purchasing activity increased markedly in December, extending the sequence of sustained expansion in buying volumes to five months. However, the rate of growth eased marginally from the twenty-three month high posted in November. Companies increased their purchasing activity primarily in response to higher output requirements.

Stocks of Purchases Index

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

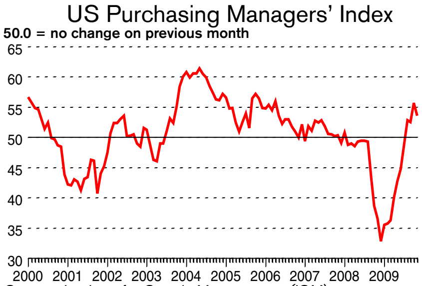




December data signalled a modest rise in stocks of purchases held at companies operating in Hong Kong. The seasonally adjusted Stocks of Purchases Index has now posted above the 50.0 no-change threshold for five consecutive months. The rise in pre-production inventories was attributed to higher purchasing activity, with panellists noting that they were rebuilding stocks to cope with anticipated future demand, and any unexpected increases in orders.

International PMI

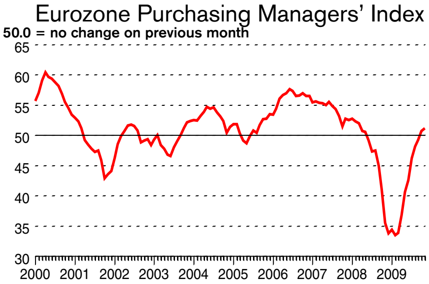
US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

November's ISM survey signalled growth of the US manufacturing sector for the fourth successive month. The headline PMI recorded 53.6, easing from the three-and-a-half year high of 55.7 recorded in October. However, it remained above the historical average for the series.

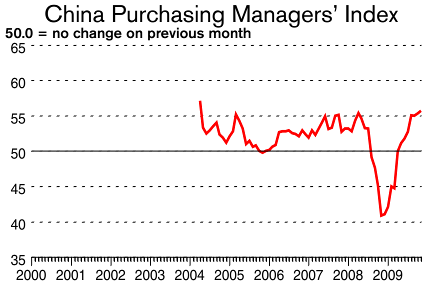
Eurozone Purchasing Managers' Index



Source: Markit.

The Markit Eurozone Manufacturing PMI® rose to a twenty-month high of 51.2 during November, up slightly from 50.7 in the previous survey period. The headline PMI has now posted above the neutral 50.0 mark for two successive months.

China Purchasing Managers' Index



Source: HSBC; Markit.

The headline HSBC China Manufacturing PMI™ rose to 55.7 in November, from 55.4 in the previous month. That pointed to the most marked improvement of operating conditions in the Chinese manufacturing economy since the first month of data collection in April 2004.

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.