

HSBC Hong Kong PMI

Hong Kong PMI signalled marked growth of private sector at start of 2010.

Summary

The headline HSBC Hong Kong Purchasing Managers' Index (PMI™) recovered most of the ground lost in December, rising to a level of 55.8, up from 55.2 and just shy of November's two-year high of 55.9.

The PMI was predominately underpinned by a strong gain in the new orders component during January. Overall new business rose at the sharpest pace since December 2006 as demand conditions continued to improve. New business from mainland China also rose markedly, and at a pace only slightly slower than the previous month's twenty-five month high.

A seventh successive monthly increase in levels of new business underpinned a similarly marked gain of private sector output. The rate of expansion was broadly in line with November's two-year peak.

Despite the strong increase in activity, companies signalled a further marked rise in backlogs of work outstanding. Survey data suggested that higher backlogs were closely related to the rapid gain in incoming new business seen over the month.

Capacity pressures encouraged a number of companies to add to their payrolls in January. Growth of employment was registered for a fourth successive month, although the rate of expansion was only marginal and slower than in December.

Cost pressures persisted at the start of 2010, with overall input prices again rising steeply. Both the purchase price and staff cost components showed gains on the month, with overall inflation principally underpinned by a strong rise in raw material prices.

In response to higher operating costs, companies partially offset the pressure on margins by increasing their average output charges. However, the rate of inflation was relatively subdued and down on December's sixteen-month peak. Strong competition was noted as a factor depressing output price inflation.

With output requirements rising, Hong Kong private sector companies raised their purchasing activity for a sixth successive month at the start of 2010. Growth was again robust, though proved insufficient to result in any meaningful rise in purchase inventories.

Comment

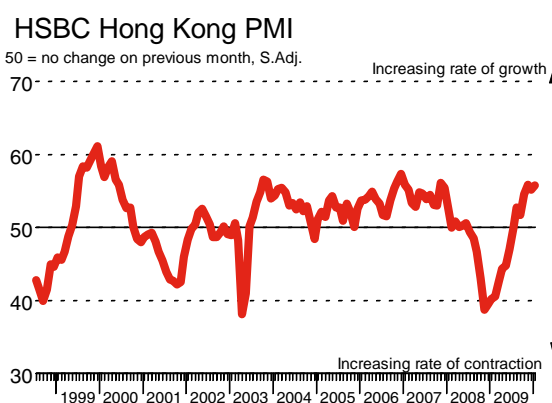
Commenting on the Hong Kong PMI survey, Janus Chan, Economics Analyst at HSBC said:

"It is encouraging that the expansion of Hong Kong's private sector accelerated again in January. Although the rate of increase of new orders from China slid back slightly, the 3-year high reading of the new orders sub-index suggests that orders from other parts of the world are also picking up. This could be a positive development for Hong Kong's exports. As new orders are piling up, companies' capacity remains stretched. Slower employment growth in January was largely reflective of time lags. We expect companies to hire more aggressively after the Chinese New Year."

Key points

- New order growth accelerated to strongest in over three years.
- Employment rose only slightly despite evidence of capacity pressures.
- Operating costs continued to rise at marked pace, led by rising raw material prices.

Historical Overview



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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.

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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.

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