

Embargoed until: 10:30 (HONG KONG), 3 February 2010

## HSBC Hong Kong PMI

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

### Key findings:

- 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.

Growth of the Hong Kong private sector economy was maintained at a sharp pace in January, with the latest expansion principally underpinned by steeply rising volumes of new orders. Latest data implied marked productivity gains, as employment increased only slightly and at a much slower rate than output. Margins nonetheless came under some pressure as overall input costs continued to increase strongly, but output charges rose only modestly.

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 – 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.

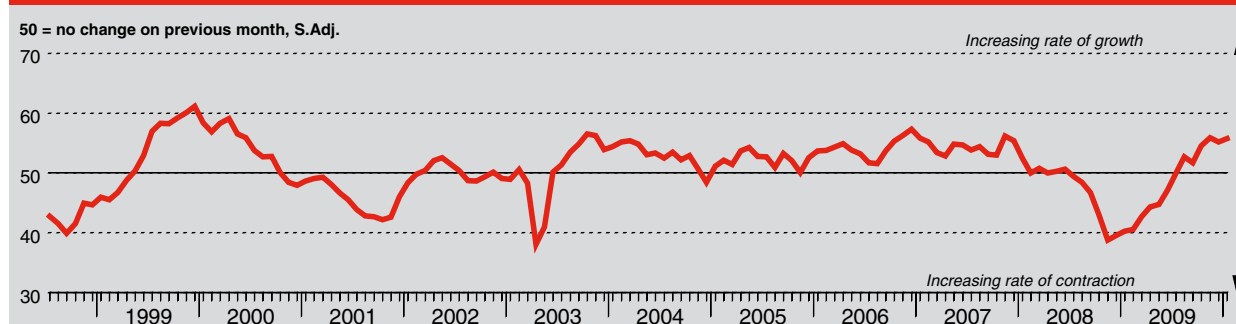
Cost pressures persisted at the start of 2010, with overall input prices again rising steeply. Both the purchase price and staff cost components showed gains on the month, with overall inflation principally underpinned by a strong rise in raw material prices.

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, which were broadly unchanged in January.

Finally, suppliers' delivery times lengthened slightly amid some reports of stock shortages at vendors.

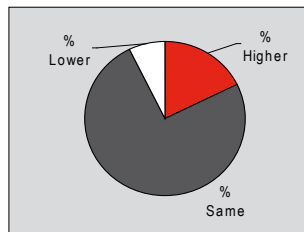
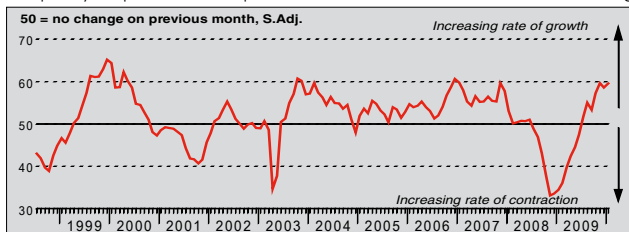
HSBC Hong Kong Purchasing Managers' Index (PMI™)



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**

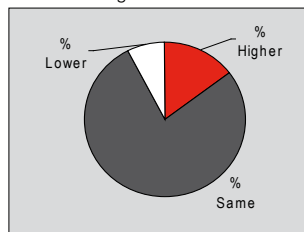
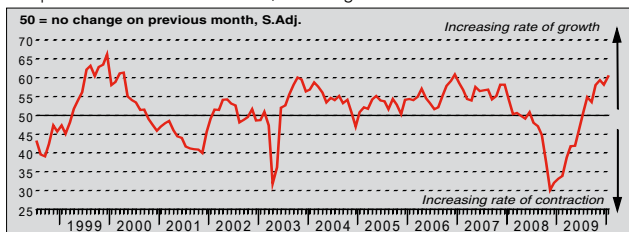
Q. Please compare your production/output this month with the situation one month ago.



Growth of output in the Hong Kong private sector was signalled for a seventh successive month at the start of 2010. Moreover, the rate of expansion accelerated since December, reaching a pace that was broadly in line with November's two-year peak. Nearly 18% of the survey panel recorded an increase in activity, generally attributing growth to higher levels of new orders.

**New Orders Index**

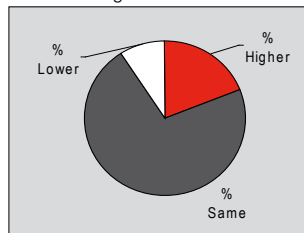
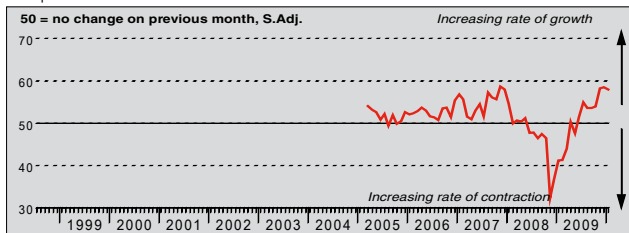
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



The seasonally adjusted New Orders Index signalled ongoing growth of new business to the Hong Kong private sector economy. January data marked the seventh successive month in which new orders have risen, maintaining the strong recovery of demand following the severe retrenchment around the same time last year. Moreover, the rate of expansion at the start of 2010 was the highest in over three years.

**New Orders Index: Mainland China**

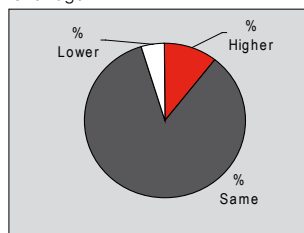
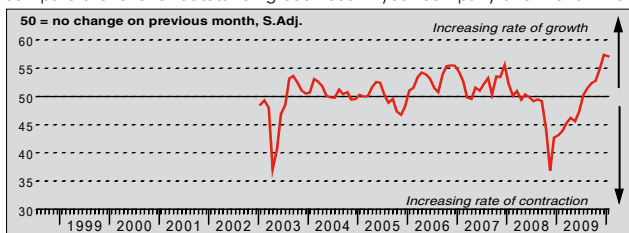
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders from mainland China continued to increase in January, the eighth successive month in which growth has been recorded. Although softening a touch on December's twenty-five month high, the rate of expansion remained historically strong in line with the rapid expansion of the Chinese economy. Nearly a fifth of panellists indicated a gain in new business from China at the start of 2010.

**Backlogs of Work Index**

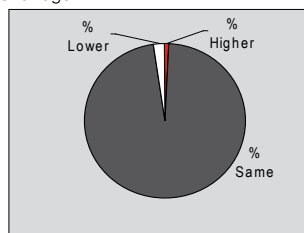
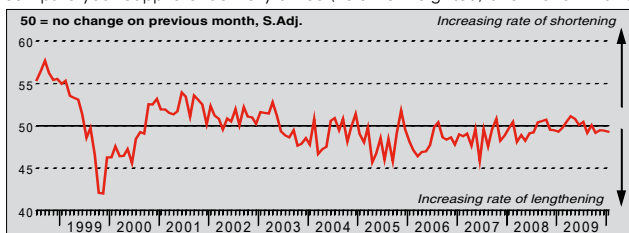
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



January data provided further evidence of capacity pressures in the Hong Kong private sector, as backlogs of work rose for a seventh successive month. The rate of growth was again steep, edging down only slightly on December's record. Evidence from the survey suggested that higher levels of work outstanding were closely correlated to the ongoing rapid expansion of incoming new business.

**Suppliers' Delivery Times Index**

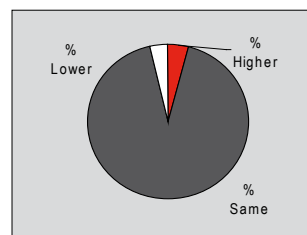
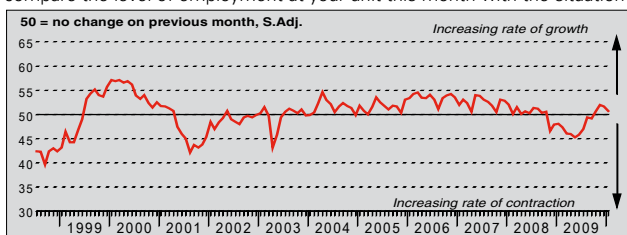
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Supplier delivery times were again broadly unmoved in January, with the respective seasonally adjusted index registering only slightly below the 50.0 no-change mark. The vast majority of companies (97%) indicated that average vendor performance was unchanged since the previous month. Of the few that indicated a lengthening of delivery times, most commented on a lack of capacity at vendors.

### Employment Index

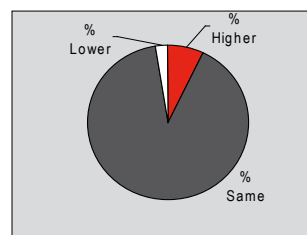
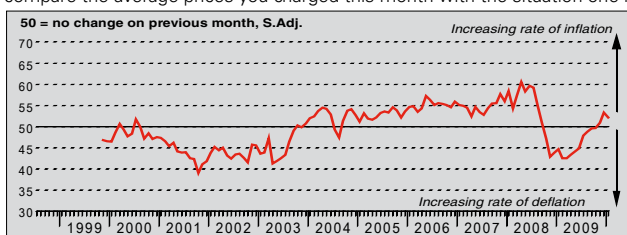
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Growth of employment was sustained for a fourth successive month in January. Companies commented that employment had been raised in line with increased production requirements and subsequent efforts to alleviate labour shortages. However, the overall increase in payroll numbers was only marginal and the weakest in three months. In some cases, leavers were not replaced.

### Prices Charged Index

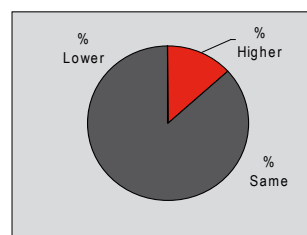
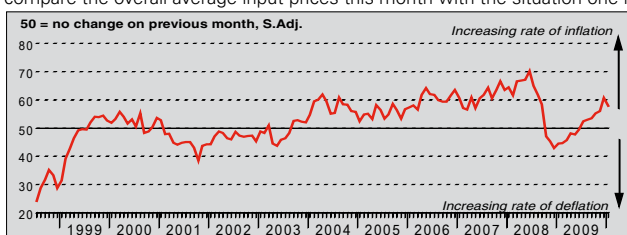
Q. Please compare the average prices you charged this month with the situation one month ago.



Average prices charged by Hong Kong private sector companies increased for a third successive month in January. The rate of inflation was, however, relatively modest and down on December's high with the majority of companies (90%) choosing to leave charges unchanged. Where an increase in output prices was recorded, this was attributed to efforts to offset higher raw material costs.

### Overall Input Costs Index

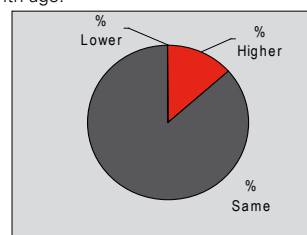
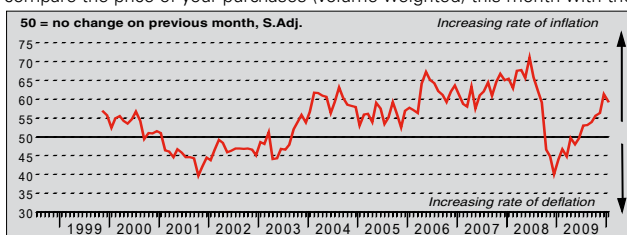
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall input costs continued to rise at a strong pace in January, albeit at a slightly slower rate than in December. Panellists predominately attributed the seventh successive round of inflation to generally higher raw material costs. Just over 13% of the survey panel commented that input prices had risen during January. There were no reported instances of lower input costs.

### Input Costs: Purchase Prices Index

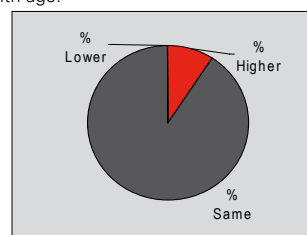
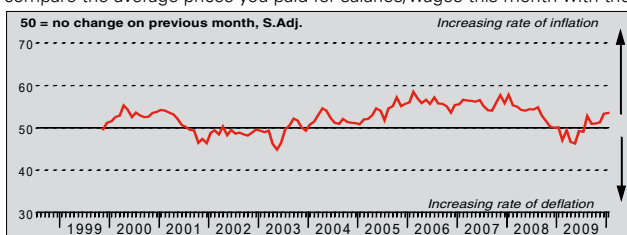
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Average purchase prices continued to increase during January, with the rate of inflation remaining steep despite easing slightly on December's sixteen-month high. Companies reported generally higher raw material prices at the start of 2010, and nearly 14% of respondents indicated a rise in purchase prices during the month.

### Input Costs: Staff Costs Index

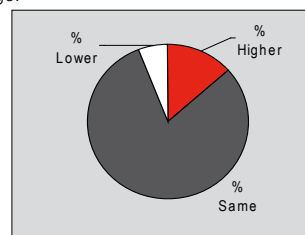
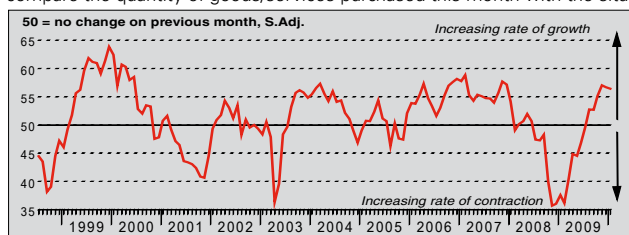
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



A sixth successive monthly increase in average staff costs was signalled in January. Nearly 10% of the survey panel reported an increase in average staff costs over the month, commenting that salaries in some cases had been adjusted upwards in response to higher labour requirements. The overall increase in staff costs during January was the strongest for seventeen months.

## Quantity of Purchases Index

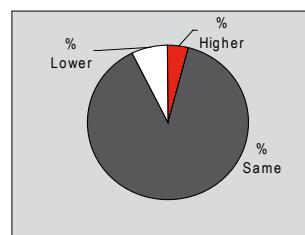
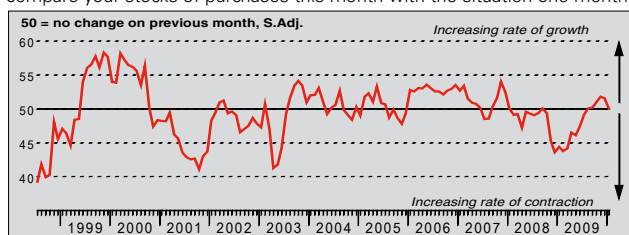
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



In response to rising output requirements and higher levels of new orders received, companies operating in the Hong Kong private sector again raised their purchasing activity in January. Latest data marked the sixth successive month in which buying has increased, with the latest growth slightly lower than December's robust pace.

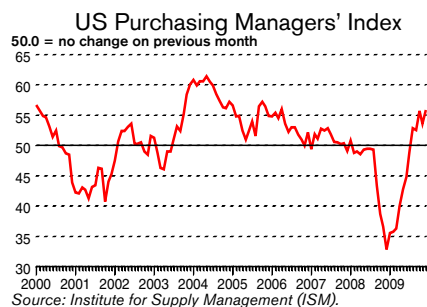
## Stocks of Purchases Index

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



Inventories of purchases held by Hong Kong private sector companies were broadly unchanged during January, rising only very slightly since the previous month. Where growth was signalled, respondents indicated forecasts of higher activity and new orders going forward. However, growth was restricted by the steep increase in current output requirements.

## International PMI



December's ISM survey signalled growth of the US manufacturing sector for the fifth successive month. Moreover, posting 55.9, the headline PMI accelerated from November's 53.6. This was the highest reading since April 2006.

The Markit Eurozone Manufacturing PMI<sup>®</sup> rose to a twenty one-month high of 51.6 during December, up slightly from 51.2 in the previous survey period. The headline PMI has now posted above the neutral 50.0 mark for three successive months.

At 56.1 in December, up from 55.7 a month previously, the headline HSBC China Manufacturing PMI<sup>™</sup> pointed to a marked improvement of operating conditions in the Chinese manufacturing sector that was the second-fastest recorded by the series to date.

## 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.

## Warning

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.