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HSBC Hong Kong PMI

Expansion of Hong Kong private sector economy slowest in four months.

Key findings:

- New order growth weakened from last month's three-year high.
- Employment rose further to support increase in operating capacity.
- Input cost inflation the strongest since July 2008.

Growth of the Hong Kong private sector economy was maintained at a marked rate in February, despite slowing from the previous survey period. The weaker expansion reflected slower rises in both output and new orders. New work from mainland China rose at the fastest pace in the series history, suggesting that dampened demand elsewhere had resulted in overall weakened growth. Nonetheless, pressures on operating capacity persisted, leading to the fastest rise in employment for over two years. Despite a substantial increase in costs, pricing power remained relatively muted, with charges rising only modestly.

The headline HSBC Hong Kong Purchasing Managers' Index (PMITM) – a composite index designed to provide timely indications of changes in prevailing business conditions in the Hong Kong economy – posted 54.6 in February. While signalling a marked improvement in business conditions, the latest PMI reading fell since January and was the weakest in four months.

New orders grew markedly in February, as global economic conditions continued to recover. However, the rate at which incoming new business expanded eased since January and was the weakest in five months. The slower growth in new business contributed to the overall decline in the headline PMI since January.

In contrast to the trend for overall new orders, growth of incoming new business received from mainland China accelerated since January. The rate at which new business

from mainland China increased was the fastest in the series history.

Output at private sector companies in Hong Kong increased markedly in February, with the latest rise the eighth in successive months. In line with a slower rate of overall new order growth, the rate at which output increased eased since January.

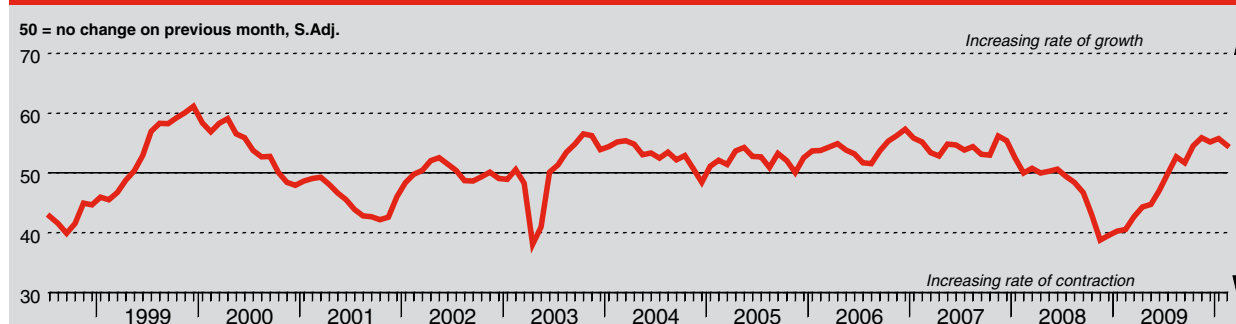
However, growth of backlogs of work persisted, suggesting that there were pressures on operating capacity. The rate at which outstanding business accumulated slowed since January, although remained marked. Reflecting this, employment within private sector companies in Hong Kong increased solidly, and at the strongest rate since December 2007.

Overall input prices rose substantially in February, with cost inflation the highest in nineteen months. Rising overall input costs were predominately driven by higher purchase prices, as the cost of raw materials increased further. However, staff costs also rose solidly during February.

Despite the rise in costs, output prices rose only modestly and at the weakest pace during the past three months. Panellists commented that strong competition for new business limited the extent to which charges could be increased.

Slower new order growth, as well as further rises in input costs, meant that purchasing activity increased at a weaker pace in February. Some companies reported that they were aiming to rebuild stocks, although the slower increase in purchases resulted in only a slight rise in inventories.

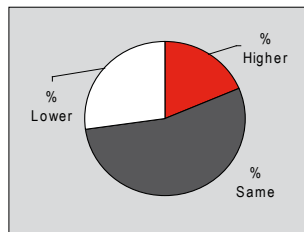
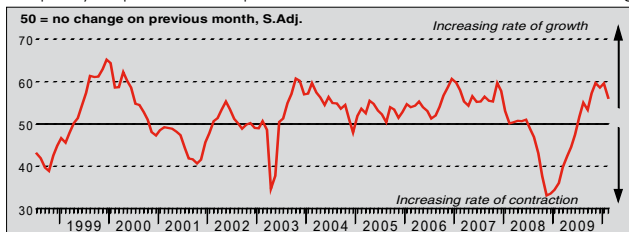
HSBC Hong Kong Purchasing Managers' Index (PMITM)



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

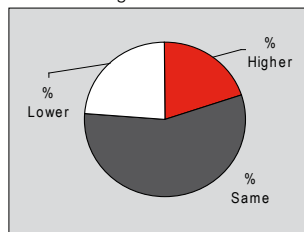
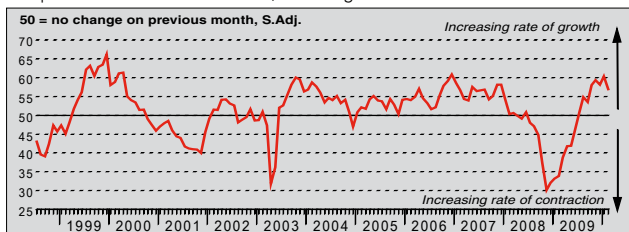
Q. Please compare your production/output this month with the situation one month ago.



Private sector companies in Hong Kong reported a marked rise in output during February. The increase in activity was the eighth in successive months. Panellists reported that the rise in output reflected higher new order volumes alongside work completed for new product launches. However, the pace of output growth reduced since January, as overall new orders increased at a slower pace.

New Orders Index

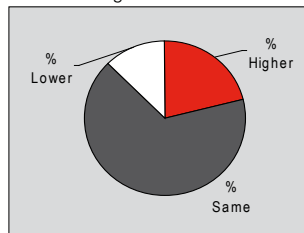
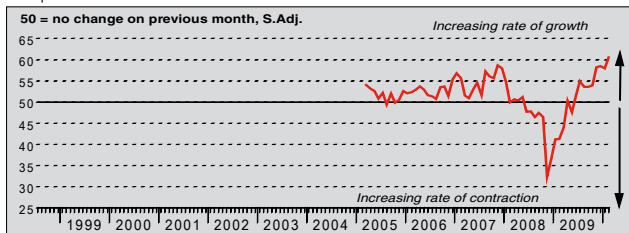
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



Overall new order volumes received by companies in Hong Kong increased markedly during February, although the rate of expansion eased since January to the slowest in five months. Where a rise in incoming new business was indicated, this was attributed to improved demand and new product launches. However, reports suggested that strong competition prevented a larger rise in new business, which has now increased for eight successive months.

New Orders Index: Mainland China

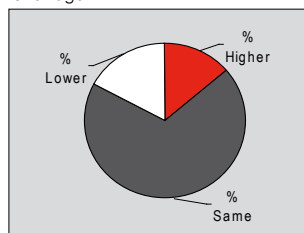
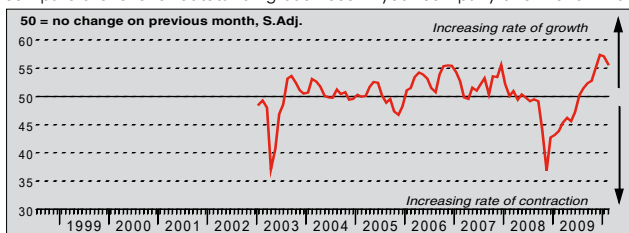
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New business received from mainland China expanded substantially during February. The rate at which new business rose accelerated since January and was the strongest in the series history. This was in contrast to overall growth in new business, which slowed during the month. Anecdotal evidence suggested that increased new business from mainland China reflected improved demand, as the Chinese economy continued to grow.

Backlogs of Work Index

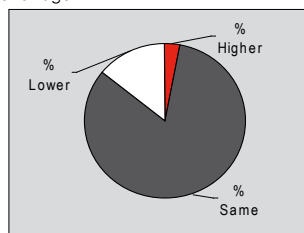
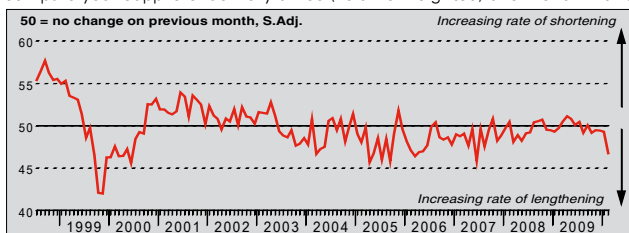
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at private sector companies in Hong Kong increased markedly during the month, suggesting that there were pressures on operating capacity. However, the rate at which outstanding business accumulated slowed since January. With a fifth successive rise in employment reported, the weaker build-up of backlogs was indicative of improved operating capacity.

Suppliers' Delivery Times Index

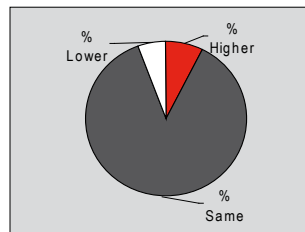
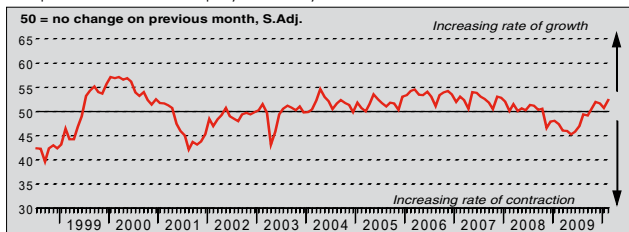
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened in February. The extent to which lead times deteriorated accelerated since January and was the fastest since June 2007. Longer delivery times reflected a further increase in purchasing activity at private sector companies in Hong Kong. Suppliers' delivery times have now lengthened in each of the past five months.

Employment Index

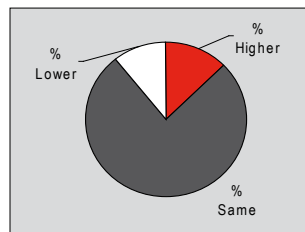
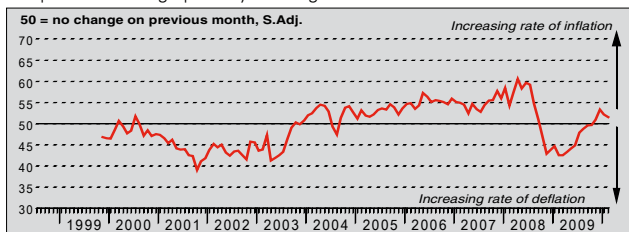
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Reflective of a further increase in output requirements, employment within the Hong Kong private sector increased solidly during February. The latest rise in headcounts was the strongest since December 2007 and faster than the long-run average for the series. Employment has now increased for five months in succession.

Prices Charged Index

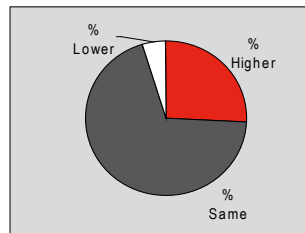
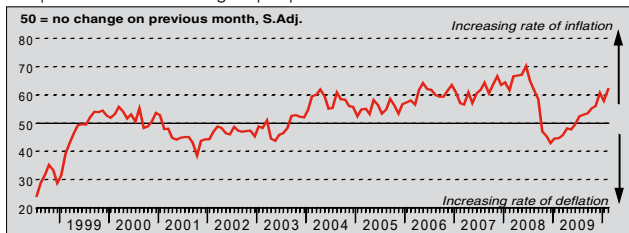
Q. Please compare the average prices you charged this month with the situation one month ago.



February data signalled that prices charged by private sector companies in Hong Kong increased modestly during February, extending the sequence of sustained rises to four months. Higher input costs largely drove the rise in output prices, according to panellists. However, the rate at which charges rose slowed since January, despite there being accelerated input cost inflation, amid reports of strong competition for new business.

Overall Input Costs Index

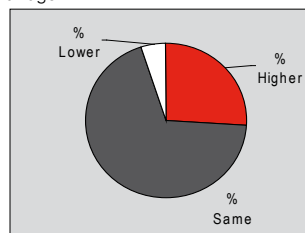
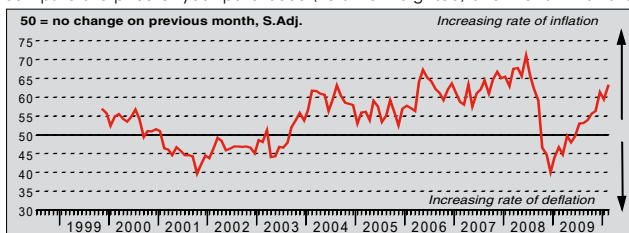
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall input prices faced by private sector companies in Hong Kong increased substantially in February, with approximately 26% of panellists reporting higher input costs compared to the previous month. Moreover, the rate at which costs rose accelerated since January to the fastest in nineteen months. The rise in input prices was predominately driven by higher purchase prices, with wages increasing to a lesser extent.

Input Costs: Purchase Prices Index

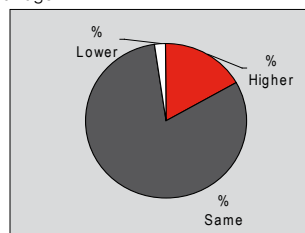
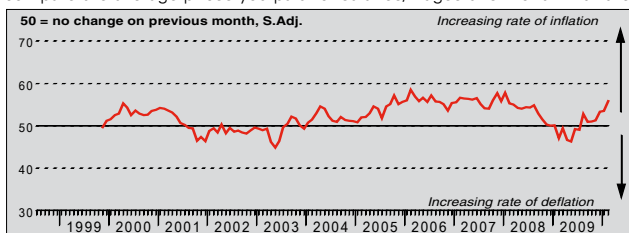
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Purchase Prices Index posted above the 50.0 no-change threshold in February, indicating a rise in costs of purchases. Moreover, the rate at which purchase prices increased was sharp, and the strongest since July 2008. Higher purchase prices were attributed to a rise in raw material costs. Unfavourable exchange rate variations were also reported to have driven up purchase prices.

Input Costs: Staff Costs Index

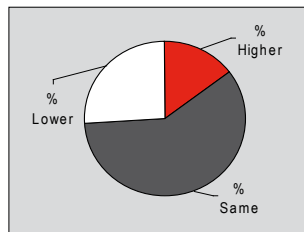
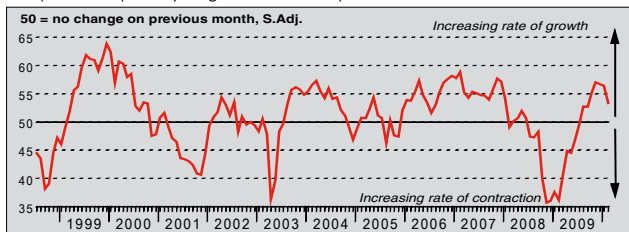
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Private sector companies operating in Hong Kong indicated that staff costs had increased solidly during February. The latest increase in wages reflected a further increase in demand for staff, as indicated by a continued rise in employment. Staff costs have now risen in each of the past seven months, and the rate of increase accelerated since January to the strongest in over two years.

Quantity of Purchases Index

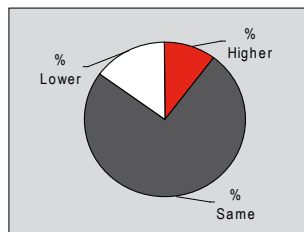
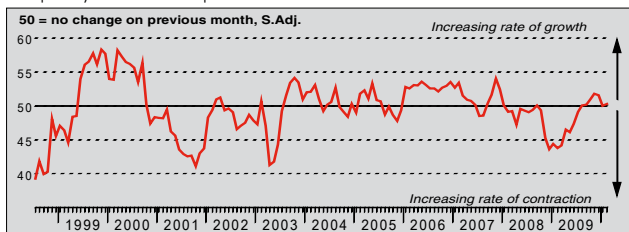
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



Purchasing activity at private sector companies in Hong Kong increased solidly in February. However, the rate at which buying volumes expanded slowed since January and was the weakest in five months. Panellists reporting a rise in purchasing activity attributed this to higher output requirements. However, some panellists reduced their purchasing activity in light of higher input prices.

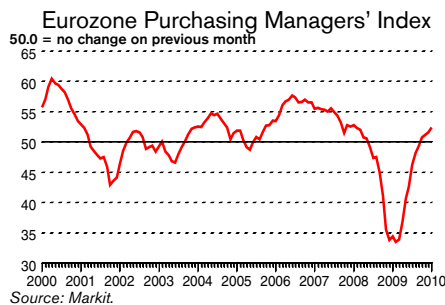
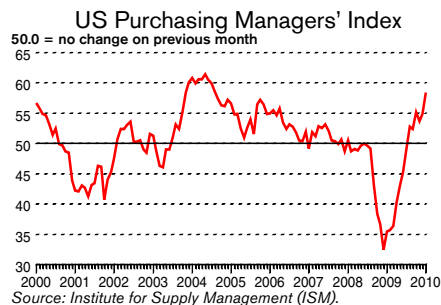
Stocks of Purchases Index

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



Stocks of purchases increased only marginally in February, with the rate of accumulation broadly unchanged since January. Reflecting this, a large proportion of panellists (approximately 74%) indicated that pre-production inventories remained flat during the month. Where a rise in stocks was reported, this was attributed to improved confidence over future activity levels. However, higher purchase prices meant that the rise in stocks was limited.

International PMI



January's ISM survey signalled marked growth of the US manufacturing sector, with expansion sustained for a sixth successive month. Moreover, posting 58.4, the headline PMI accelerated from December's 54.9. This was the highest reading since August 2004.

The Markit Eurozone Manufacturing PMI™ posted 52.4 in January, its highest reading for two years. The index value was above the reading of 51.6 posted in December. The PMI has now remained above the neutral 50.0 mark for four consecutive months.

At 57.4, up from 56.1 in the previous month, the headline HSBC China Manufacturing PMI™ rose to a record high at the start of 2010. This signalled a marked improvement of operating conditions in the Chinese manufacturing sector.

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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