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HSBC Hong Kong PMI

Expansion of Hong Kong private sector economy weakest in eight months.

Key findings:

- Growth in new business received from mainland China slowest in four months.
- Employment increased, reflecting a further rise in workloads.
- Higher purchase prices continued to drive overall input cost inflation.

Business conditions in the Hong Kong private sector economy continued to strengthen during May. However, the extent of the improvement eased since April, and was the weakest in eight months. Incoming new business continued to rise, albeit at a slower pace, which supported a further increase in output. Despite this, backlogs of work grew, indicating that a degree of pressure on operating capacity persisted. Subsequently, employment increased for an eighth successive month. Meanwhile, overall input prices rose again, driven predominately by higher purchase prices. However, a weakening in wage inflation eased the rate at which overall input costs rose.

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 53.2 in May. The latest reading was down from the 55.3 reported in April, but still signalled a solid improvement in business conditions.

Supporting the PMI was a further increase in incoming new business. However, the rate of new order growth slowed since April, suggesting a weaker improvement in demand. New business received from mainland China also increased at a slower rate during May, contributing to the overall easing in new order growth.

Nonetheless, the latest increase in new business supported a further expansion in activity, albeit weaker than in the previous survey period. Backlogs of work at companies in Hong Kong

increased, indicating a degree of pressure on operating capacity. However, the accumulation of outstanding business was the slowest in ten months, reflective of the weaker growth in new orders.

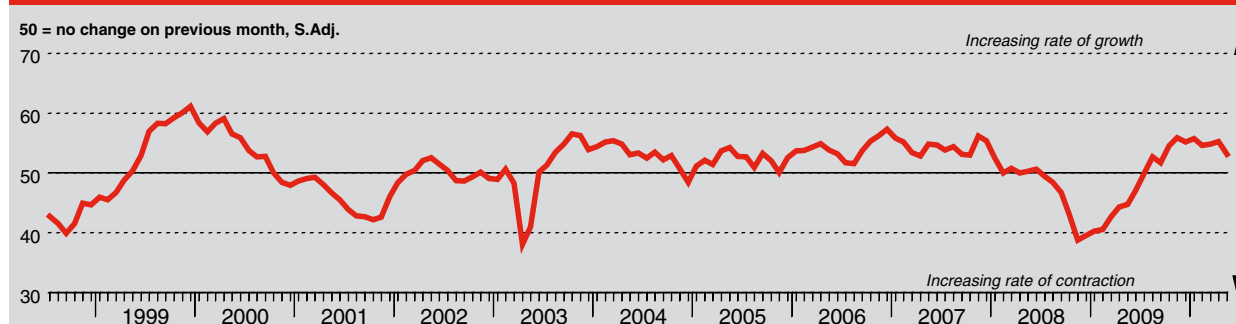
In line with increased workloads and output requirements, employment within the Hong Kong private sector increased during May. The rate at which staffing levels rose was modest and slightly weaker than that reported in April.

Companies in Hong Kong indicated a further increase in purchasing activity during May. The pace at which input buying rose eased from the previous survey period, in line with the slower expansion in activity. Subsequently, suppliers' delivery times lengthened moderately, as the sustained rise in purchasing put pressure on capacity at vendors.

Stocks of purchases increased during the month, suggesting that companies were aiming to rebuild stocks, as well as fulfilling higher current output requirements.

Overall input costs faced by companies in Hong Kong increased markedly during May. Rises in both purchase prices and staff costs drove the increase, although the former was the predominant factor. The rate at which overall input costs rose slowed since April, driven by weaker wage inflation. Output prices also increased in May, albeit at a slower rate, as competition for new business prevented a larger rise in charges.

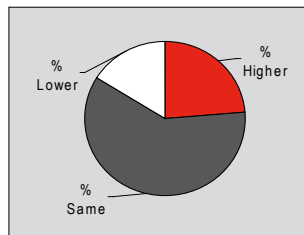
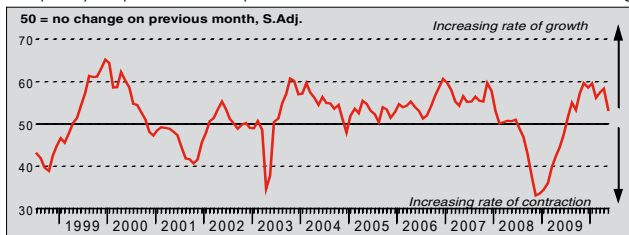
HSBC Hong Kong Purchasing Managers' Index (PMI™)



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

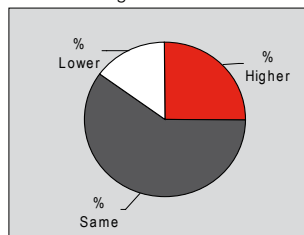
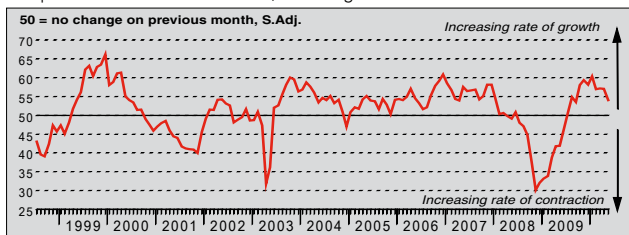
Q. Please compare your production/output this month with the situation one month ago.



Activity within the Hong Kong private sector increased solidly during May. Approximately 24% of panellists indicated a rise in output, and attributed this to a further increase in incoming new business. However, the rate at which activity grew slowed sharply since April to the weakest in eight months. Nonetheless, the latest increase remained above the long-run average for the series.

New Orders Index

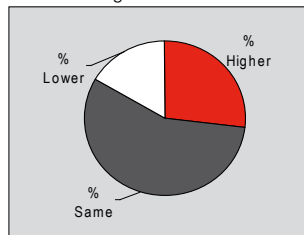
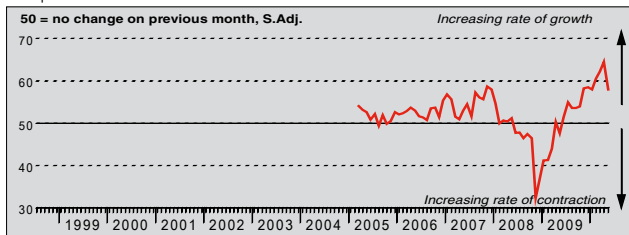
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



May data signalled a solid rise in incoming new business received by companies in Hong Kong, extending the sequence of sustained growth to eleven months. Panellists stated that the rise in new orders was supported by a further improvement in global economic conditions. However, the rate of new order growth eased during the month, implying a weaker increase in demand compared to April.

New Orders Index: Mainland China

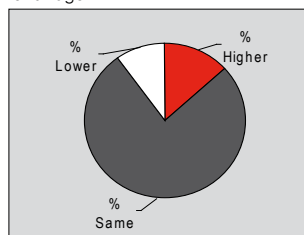
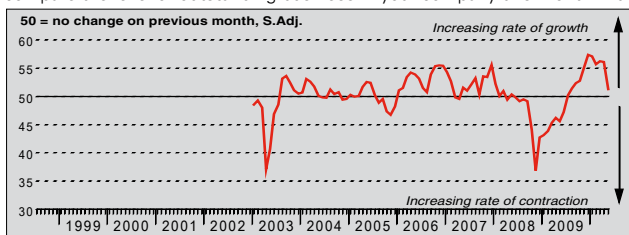
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders received from mainland China increased markedly during May, due to the continued growth of the Chinese economy. However, the rate at which incoming new business rose slowed notably since April. Nonetheless, the latest increase remained sharp in the context of historical data, and was the twelfth increase in as many months.

Backlogs of Work Index

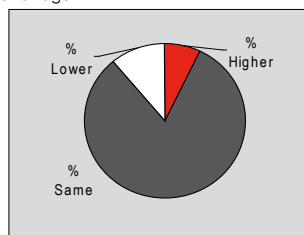
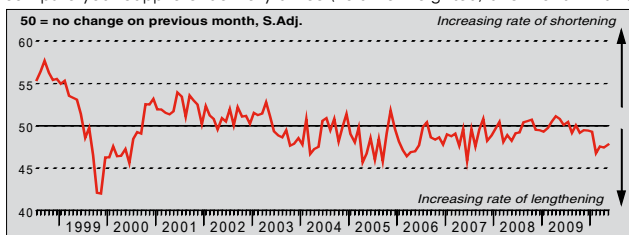
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at companies in Hong Kong increased marginally during May. This suggested a small degree of pressure on operating capacity. However, the rate at which outstanding business accumulated eased since April, reflective of the lower rate of new order growth recorded in the month.

Suppliers' Delivery Times Index

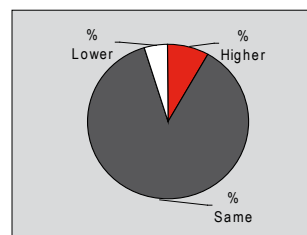
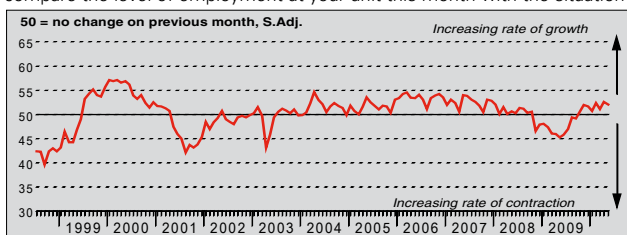
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Companies in Hong Kong reported a modest lengthening in suppliers' delivery times during May, reflecting a further rise in purchasing activity. The extent to which lead times worsened eased slightly since April, but remained sharper than the long-run average for the series. However, indicative of the modest deterioration in delivery times, approximately 82% of panellists reported that they remained unchanged during the month.

Employment Index

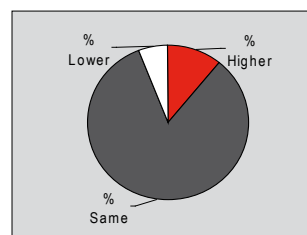
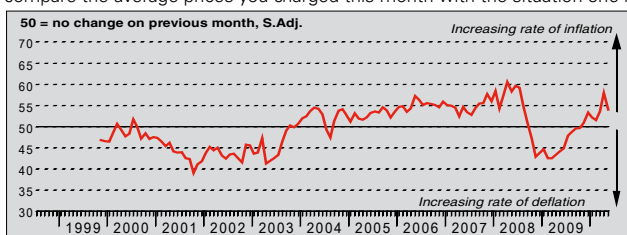
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment within the Hong Kong private sector increased modestly during May, extending the sequence of sustained growth to eight months. Panellists commented that the rise in staffing levels reflected a further rise in workloads and capacity requirements. However, the majority of panellists (87%) indicated that employment remained unchanged since April.

Prices Charged Index

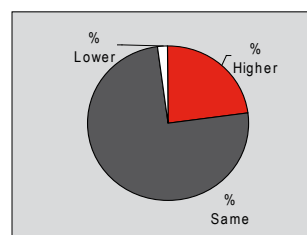
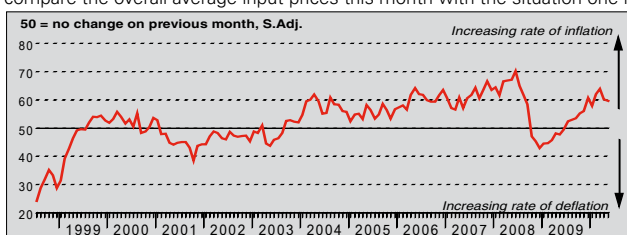
Q. Please compare the average prices you charged this month with the situation one month ago.



May data signalled a solid rise in prices charged by companies operating in the Hong Kong private sector. Anecdotal evidence suggested that the rise in output prices reflected a further increase in input costs. The latest increase in charges was the seventh in successive months, although the extent of the rise slowed since April. Panellists commented that competition for new business prevented a larger rise in charges.

Overall Input Costs Index

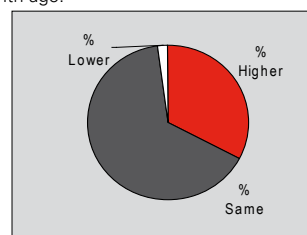
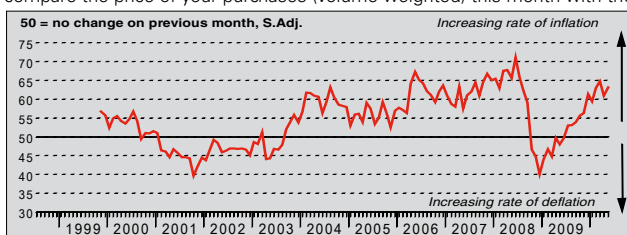
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall input costs faced by companies in Hong Kong increased markedly during May, extending the current period of cost inflation to eleven months. Panellists commented that both higher purchase prices and staff costs had driven the rise in input prices. However, the rate at which input costs rose slowed marginally since April, primarily due to slower wage inflation. Nonetheless, it remained sharp and above the long-run average for the series.

Input Costs: Purchase Prices Index

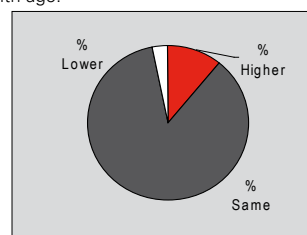
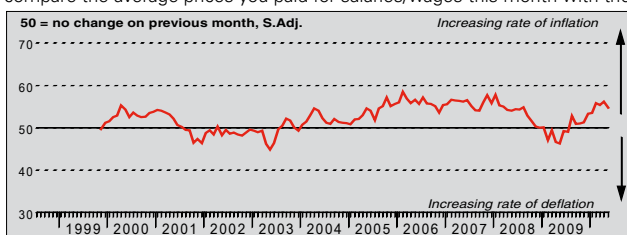
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



May data signalled a substantial rise in purchase costs, with panellists attributing this to higher raw material prices, particularly for metals and paper. Moreover, the rate at which purchase prices increased accelerated since April, and was sharp in the context of historical data. Purchase prices have now risen in each of the last eleven months.

Input Costs: Staff Costs Index

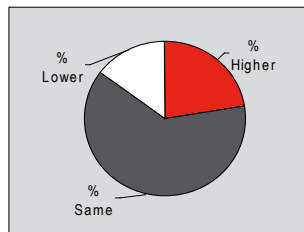
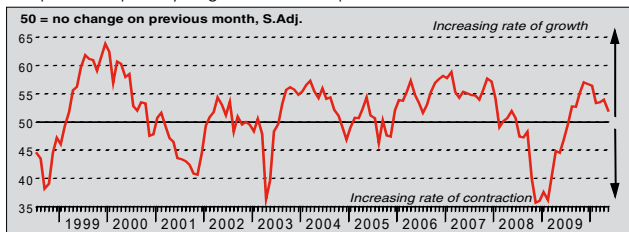
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Companies in Hong Kong reported a marked rise in staff costs during May. Anecdotal evidence suggested that this was due increased demand for staff, with some panellists noting that they had to raise wages to retain employees. The rate at which staff costs increased slowed since April, although remained above the long-run average for the series.

Quantity of Purchases Index

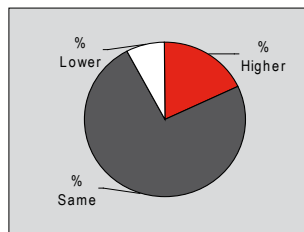
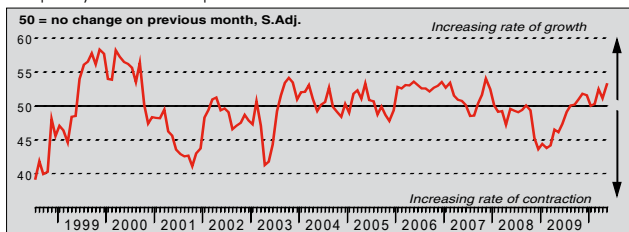
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



Purchasing activity at companies in Hong Kong increased modestly during May, extending the sequence of sustained rises to ten months. The increase in input buying reflected a further expansion in new order requirements, and therefore activity. However, the rate at which purchasing activity increased eased during the month, in line with weaker new order growth.

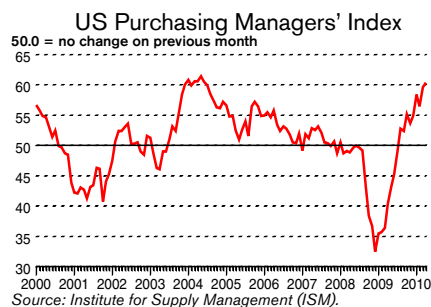
Stocks of Purchases Index

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



May data signalled a solid rise in stocks of purchases. The latest increase was the tenth in successive months, and the strongest since November 2007. The faster accumulation of pre-production inventories recorded in May occurred despite slower growth in purchasing activity. This suggested that panellists were aiming to rebuild stocks.

International PMI



April's ISM survey signalled a substantial strengthening of business conditions in the US manufacturing sector, with improvement sustained for a ninth successive month. Posting 60.4, the headline PMI rose from March's reading of 59.6. This signalled the strongest rate of growth since June 2004.

The Markit Eurozone Manufacturing PMI posted 57.6 in April, rising from 56.6 in March. The latest reading was the highest since June 2006, and above the long-run average for the series. The PMI has now been above the 50.0 no-change mark for seven successive months.

The headline HSBC China Manufacturing PMI™ remained above the neutral 50.0 threshold in April, pointing to a further improvement in Chinese manufacturing sector operating conditions. Despite falling to a seven-month low of 55.2, the index was consistent with a marked rate of expansion.

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. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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