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## HSBC Hong Kong PMI

Improvement in business conditions in Hong Kong private sector economy slowed for second consecutive month.

### Key findings:

- Overall new order growth weakest in eleven months.
- Employment increased for ninth successive month.
- Input price pressures continued to build.

Business conditions in the Hong Kong private sector economy continued to strengthen during June. However, the pace of improvement weakened for a second consecutive month, and was the lowest since September 2009. A slowdown in the expansion of new orders contributed to the weaker PMI during the month. However, output rose at a faster pace than in the previous survey period. Nonetheless, backlogs continued to increase, with employment also rising to boost capacity. Meanwhile, overall input prices increased again, driven by higher purchase prices and staff costs. However, output price inflation eased amid strong competition for new business.

The headline HSBC Hong Kong PMI™ – a composite index designed to provide timely indications of changes in prevailing business conditions in the Hong Kong economy – posted 52.6 in June, down from the 53.2 reported in May. Nonetheless, the latest positive reading (above the 50.0 no-change mark) was the eleventh in successive months, and signalled a solid improvement in business conditions.

Incoming new business received by companies in Hong Kong increased for a twelfth consecutive month during June. Panellists attributed the latest rise in new work to the ongoing improvement in global economic conditions. However, growth of new business slowed during the month, with the latest increase the weakest since July 2009.

New business received from mainland China also grew at a slower pace during the month, although this remained sharp

in the context of historical data.

The rise in overall new business supported a further increase in output in June. Moreover, the pace of expansion accelerated slightly since May. Despite this, backlogs of work at companies in Hong Kong continued to rise. Outstanding business has now increased continuously over the past year.

Reflective of sustained expansions in new orders and output, employment within the Hong Kong private sector rose during June. The latest increase was only marginally lower than the twenty-eight month high recorded in April.

Despite the further rise in output, purchasing activity was broadly unchanged during June. This ended a ten-month period of increased input buying. However, stocks of purchases rose again, albeit at a marginal pace, suggesting that the latest level of purchasing was largely sufficient to meet output requirements. Suppliers' delivery times lengthened further in June, although only moderately.

Overall input costs faced by companies in Hong Kong increased substantially during June, driven by higher purchase prices and staff costs. Purchase price inflation was broadly unchanged since May, although the rise in wages accelerated. Output prices rose for an eighth successive month during June, although the latest increase was the weakest in that period, with the rise in charges limited by competition for new business.

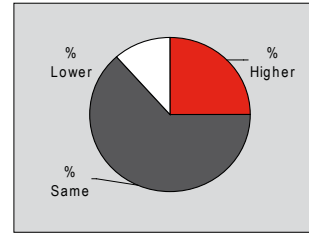
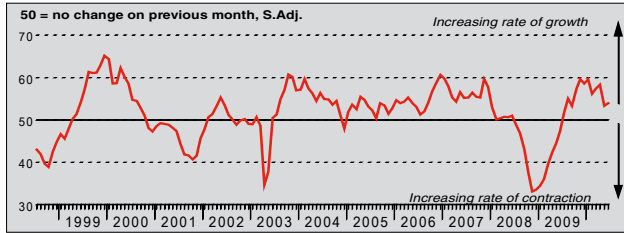
### HSBC Hong Kong PMI™



The HSBC Hong Kong 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**

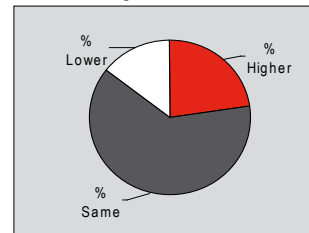
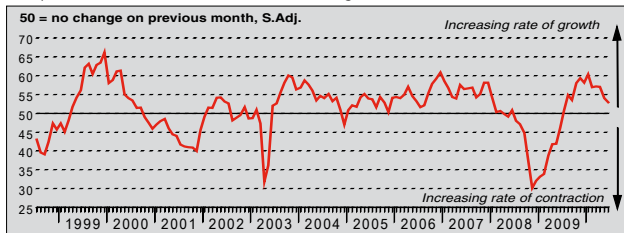
Q. Please compare your production/output this month with the situation one month ago.



Output within the Hong Kong private sector increased solidly during June, extending the sequence of sustained growth to twelve months. Moreover, the rate at which output increased accelerated marginally since May. Exactly 25% of panellists indicated a rise in output during the month, and attributed this to a further rise in new orders.

**New Orders Index**

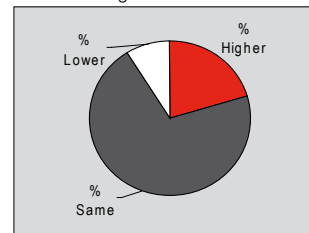
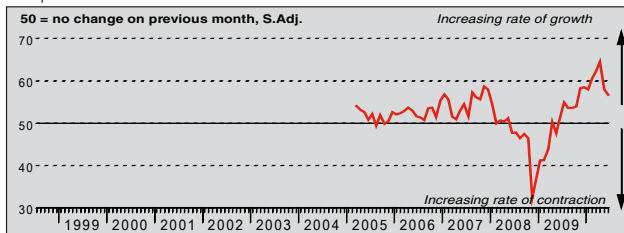
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



June data signalled a solid rise in new orders received by companies in Hong Kong. However, with only about 23% of panellists reporting an increase in new business, the extent of the rise slowed marginally since May to the weakest in eleven months. Nonetheless, the latest increase extended the period of growth to one year, and remained above the long-run average for the series.

**New Orders Index: Mainland China**

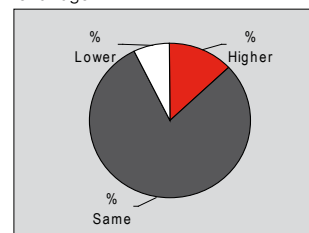
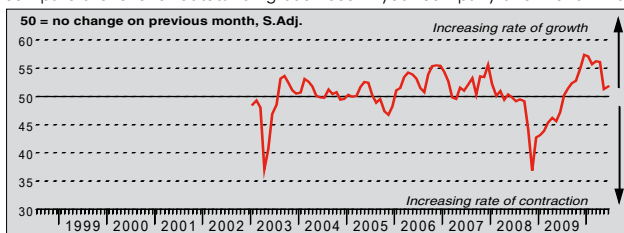
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



Companies in Hong Kong reported a marked rise in new orders received from mainland China in June. However, the rate of expansion in new orders from the mainland slowed for a second successive month from the series high recorded in April. Nonetheless, the latest increase, which was the thirteenth in successive months, remained marked in the context of historical data.

**Backlogs of Work Index**

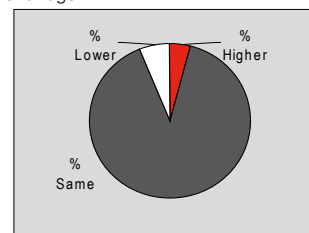
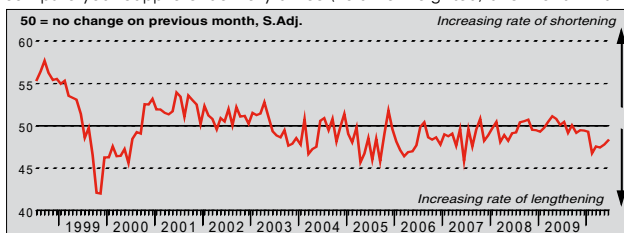
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Despite a further rise in output during June, backlogs of work at companies in Hong Kong continued to expand. Outstanding business has now accumulated continuously over the last twelve months, indicating a degree of pressure on operating capacity. Whilst the extent to which backlogs rose was modest, it remained above the long-run average for the series.

**Suppliers' Delivery Times Index**

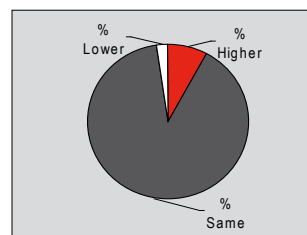
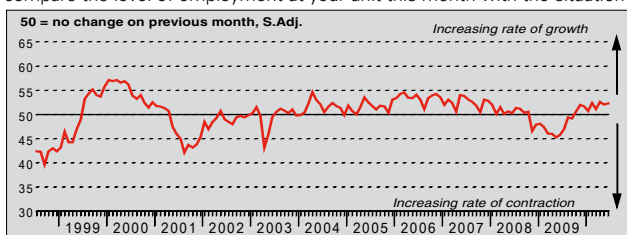
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened in June, despite purchasing activity being broadly unchanged since May. The latest worsening in vendor performance was the ninth in successive months, although the extent of the deterioration eased slightly since May. Nonetheless, the majority of panellists (approximately 90%) indicated that lead times remained unchanged in June.

### Employment Index

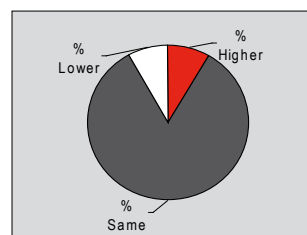
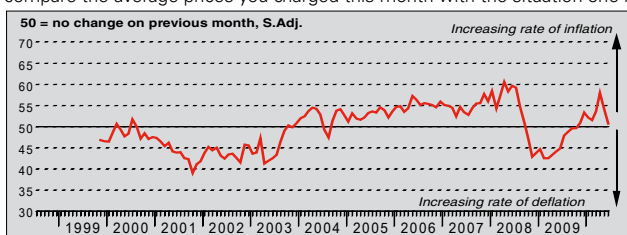
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment within the Hong Kong private sector increased modestly during June. Panellists commented that the rise in staffing levels reflected the sustained increases in output and new orders. The extent to which employment rose accelerated slightly since May, although remained marginally below the twenty-eight month high recorded in April.

### Prices Charged Index

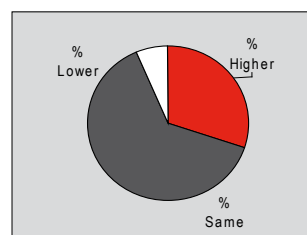
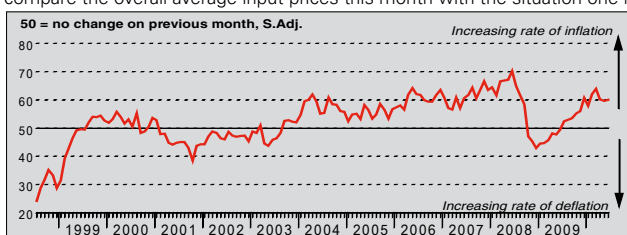
Q. Please compare the average prices you charged this month with the situation one month ago.



June data signalled a marginal rise in output prices in June. Increasing charges have now been recorded consecutively since November 2009, with panellists attributing this to higher input costs. However, the rate of output price inflation slowed since May to the weakest in the current period of rises. Panellists attributed the lower increase in charges to strong competition for new business.

### Overall Input Costs Index

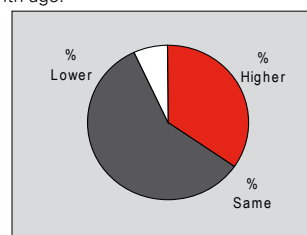
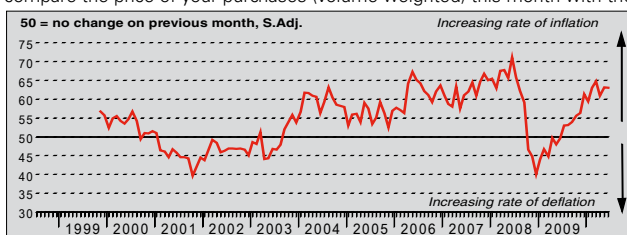
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall input costs faced by companies in Hong Kong increased substantially during June, with approximately 30% of panellists indicating a rise. Data suggested that both increasing purchase prices and staff costs drove the rise in input prices during the month. The rate of input cost inflation increased slightly since May, and remained marked in the context of historical data.

### Input Costs: Purchase Prices Index

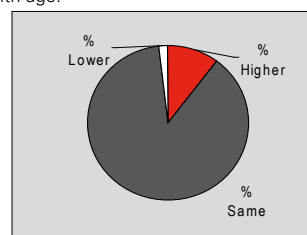
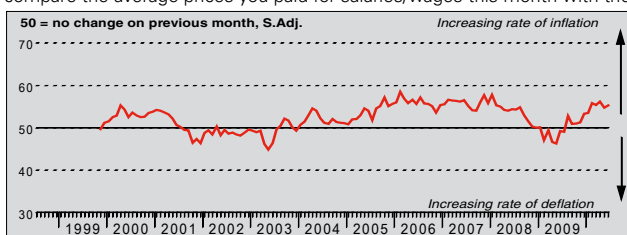
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Companies in Hong Kong reported a substantial rise in purchase prices during June, extending the sequence of sustained increases to twelve months. Approximately 35% of panellists indicated that input prices had increased during the month, and attributed this to higher raw material costs. The latest rate of input cost inflation remained sharp, and above the long-run average for the series.

### Input Costs: Staff Costs Index

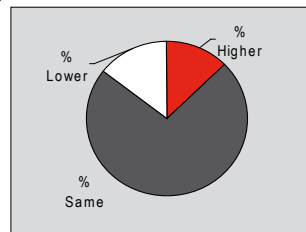
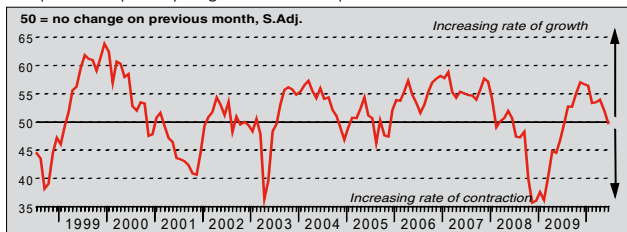
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



June data signalled a marked rise in staff costs faced by companies in Hong Kong. Moreover, wage inflation accelerated since May, with approximately 11% of panellists noting higher staff costs compared to the previous month. Salaries have now increased over each of the last eleven months, with the latest rise strong in the context of historical data.

### Quantity of Purchases Index

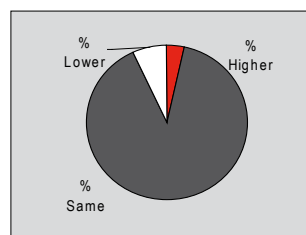
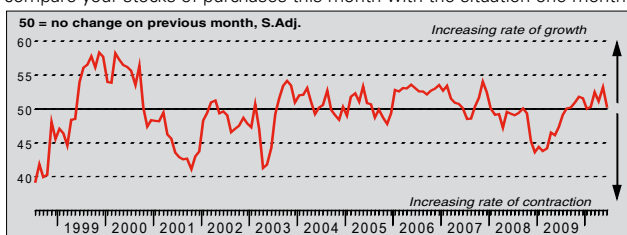
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index posted broadly in line with the 50.0 no-change threshold in June. This signalled that purchasing activity had remained largely flat in the month, and ended a ten-month period of increased input buying. Panellists attributed this to lower new order growth recorded during June.

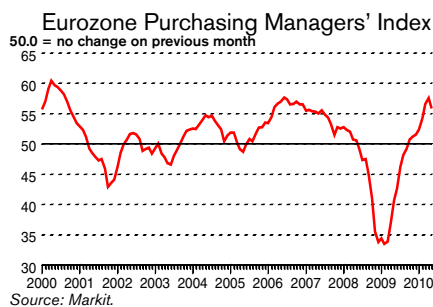
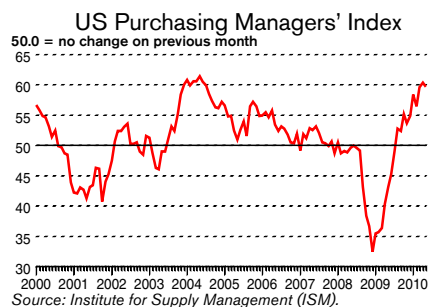
### Stocks of Purchases Index

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



Stocks of purchases at companies in Hong Kong increased slightly during June, despite purchasing activity remaining broadly unchanged. However, the extent to which pre-production inventories rose slowed since May (a thirty-month high) to the weakest in four months. Stocks of purchases have now increased for eleven consecutive months.

### International PMI



May's ISM survey signalled a marked strengthening of business conditions in the US manufacturing sector, with improvement sustained for a tenth successive month. Posting 59.7, the headline PMI fell from April's reading of 60.4. Nonetheless, this was the second-strongest reading since July 2004.

The Markit Eurozone Manufacturing PMI posted 55.8 in May, reducing from 57.6 in April. Nonetheless, the latest reading signalled a marked improvement in business conditions in the Eurozone manufacturing sector. The PMI has now been above the 50.0 no-change mark for eight successive months.

The recovery of China's manufacturing sector lost some momentum in May, highlighted by a drop in the headline HSBC China Manufacturing PMI™ to 52.7 from 55.2 in April. May's reading was the lowest in eleven months and indicative of only a modest improvement of operating conditions in the manufacturing sector.

### Notes on the Data and Method of Presentation

The Hong Kong PMI 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 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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