HSBC PMI™ Press Release

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compiled by markit

HSBC Hong Kong PMI™

Growth of Hong Kong private sector economy weakened again in July

Summary

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 51.3 in July, down from 52.6 in June. Nonetheless, the latest figure signalled a modest improvement in business conditions (which was slightly above the long-run average for the series) and was the twelfth reading above 50.0 in successive months.

Companies in Hong Kong reported a marginal rise in new orders received during July. However, the pace of new business growth slowed for a fourth successive month. Anecdotal evidence suggested that concerns over the stability of the economic recovery had dampened demand. Similarly, new orders received from companies in mainland China also rose at a weaker rate, which was the lowest in thirteen months.

Nonetheless, the latest increase in overall new business supported a further expansion in output during the month. Output growth has now been sustained since July 2009.

Backlogs of work at companies in Hong Kong fell during July for the first time in thirteen months. This indicated that operating capacity in the latest survey period was broadly sufficient to meet the rise in new orders.

July data signalled a further increase in employment within the Hong Kong private sector. Moreover, the pace at which staffing levels rose has been largely flat in recent months, despite the easing in output growth.

Purchasing activity was reported to have fallen during July, as companies lowered requirements in response to the weaker rise in new business. This was the second successive month where input buying decreased.

Overall input costs faced by companies in Hong Kong increased during July, driven by higher purchase and wage costs. However, the rate of input cost inflation slowed since June. Output prices also rose, and at a stronger pace than in the previous survey period. However, the extent of the increase in charges was limited by strong competition for new business. Output prices have now risen in each of the last nine months.

Comment

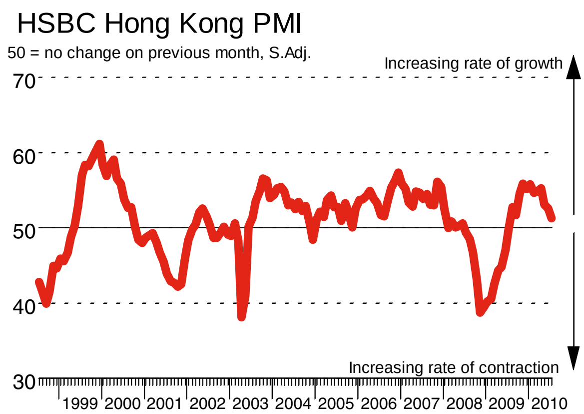
Commenting on the Hong Kong PMI survey, Mark McCombe, Chief Executive of HSBC, Hong Kong, said:

"Hong Kong's rate of expansion is normalising following a sharp recovery in the early part of the year. The easing of output and new order growth is an expected part of this process. The resilience of employment conditions underlies our strong outlook for domestic demand as a key growth driver for the rest of 2010."

Key points

- Overall new order expansion continued to slow.
- Employment growth maintained at moderate rate.
- Input cost inflation at eight-month low.

Historical Overview



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For further information, please contact:

HSBC

Hongbin Qu

HSBC Global Research Managing Director and Chief Economist Greater China

Telephone +852 2822 2025

Email hongbinqu@hsbc.com.hk

Laine Santana, Media Enquiries

Telephone +852 2822 4918

Email lainesantana@hsbc.com

Gareth Hewett, Media Enquiries

Telephone +852 2822 4929

Email garethhewett@hsbc.com.hk

Markit

Sarah Ledger, Economist

Telephone +44-1491-461-050

Email sarah.ledger@markit.com

Caroline Lumley, Corporate Communications

Telephone +44-20-7260-2047

Email caroline.lumley@markit.com

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 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.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

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About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (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.