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HSBC Hong Kong PMI™

Growth of Hong Kong private sector economy weakened again in July.

Key findings:

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

July data signalled a further strengthening of business conditions in the Hong Kong private sector economy. However, the pace of improvement slowed for a third successive month, and was the weakest in the current sequence of growth. A further slowdown in new order expansion contributed to lower rises in output and the headline PMI. Nonetheless, employment increased again, with the extent of the rise broadly unchanged since June. Meanwhile, overall input prices continued to increase, driven by both purchase and wage costs. However, the rate of input cost inflation slowed since June. Output prices rose again, and to a greater extent than in the previous survey period.

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. Suppliers' delivery times continued to lengthen in July, although the extent of the deterioration in vendor performance was the weakest in six months.

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.

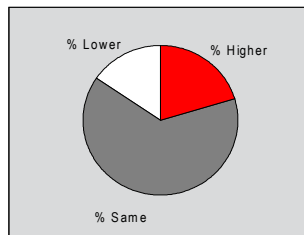
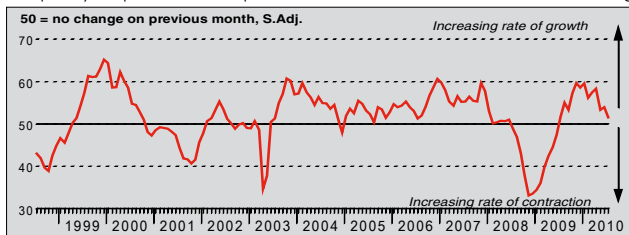
HSBC Hong Kong PMI



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

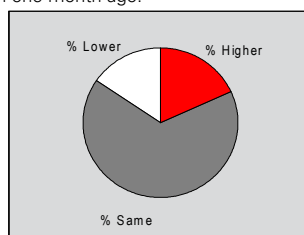
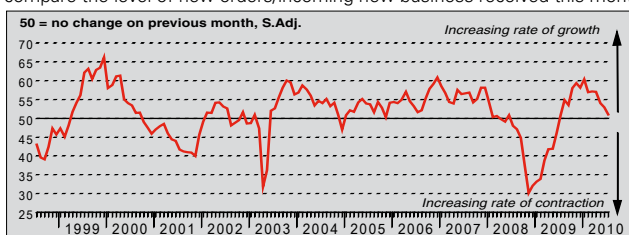
Q. Please compare your production/output this month with the situation one month ago.



Companies in Hong Kong reported a modest rise in output during July, extending the sequence of sustained expansion to thirteen months. However, the rate at which production increased slowed since June to the weakest in the current period of growth. This was attributed to a slower increase in new orders.

New Orders Index

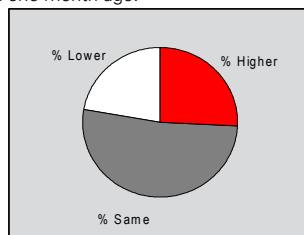
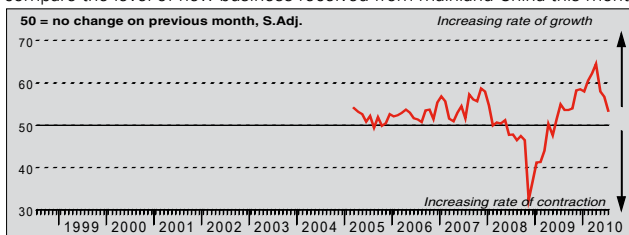
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



July data signalled a marginal rise in incoming new business received by private sector companies operating in Hong Kong. However, the rate of new order growth slowed for a fourth successive month to the weakest in a year. Panellists commented that concerns over the stability of the economic recovery had dampened demand. Nonetheless, new work intakes have now increased in each month since July 2009.

New Orders Index: Mainland China

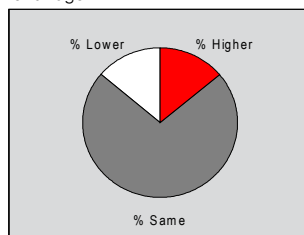
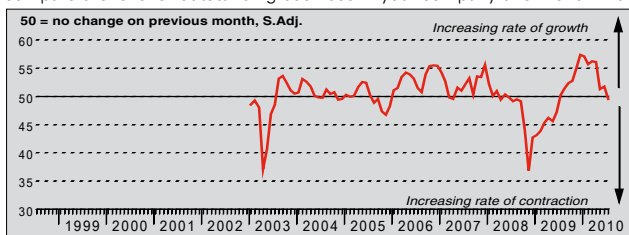
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders received from mainland China increased in July, extending the sequence of sustained growth to fourteen months. However, the rise in new business from the mainland slowed for a third consecutive month to the weakest since June 2009. Nonetheless, it remained above the long-run average for the series.

Backlogs of Work Index

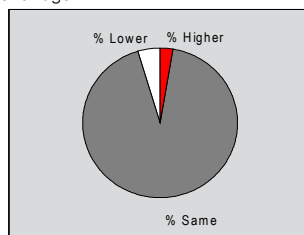
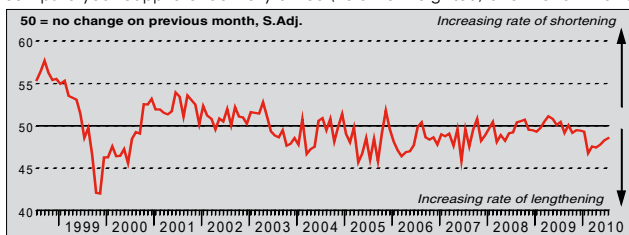
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index posted marginally below the 50.0 no-change threshold in July, signalling a slight reduction in outstanding business at companies in Hong Kong. This was the first decrease in backlogs in thirteen months, indicating that existing operating capacity was broadly sufficient to meet new order growth.

Suppliers' Delivery Times Index

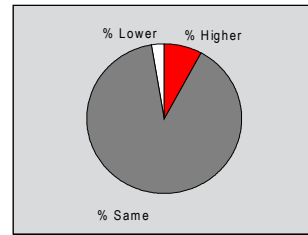
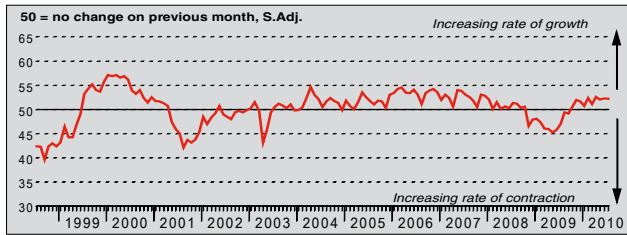
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened during July, despite a further reduction in purchasing activity. Vendor performance has now deteriorated in each of the last ten months. However, reflective of the marginal extent of deterioration, the vast majority of panellists (approximately 93%) indicated that lead times remained unchanged since June.

Employment Index

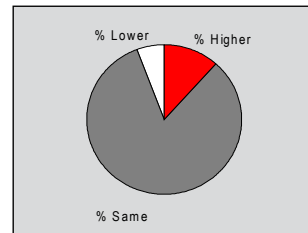
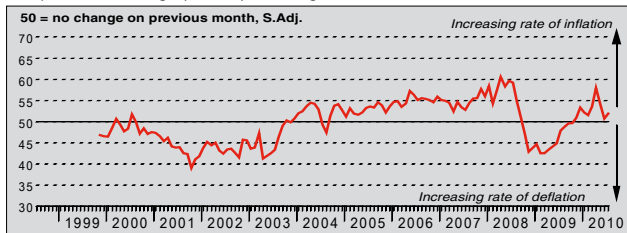
Q. Please compare the level of employment at your unit this month with the situation one month ago.



July data signalled a modest rise in employment within the Hong Kong private sector. The pace at which staffing levels increased has been broadly flat in recent months, despite both new order and output growth weakening. Employment has now risen in each of the last ten months.

Prices Charged Index

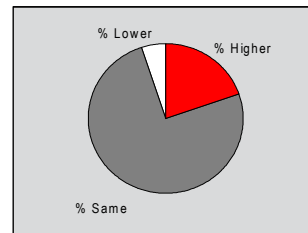
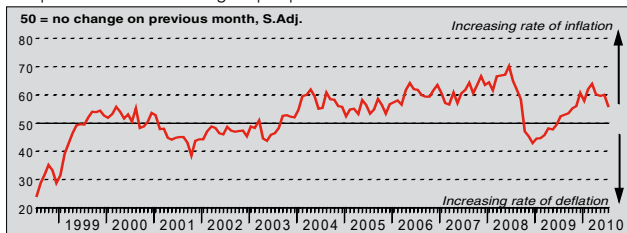
Q. Please compare the average prices you charged this month with the situation one month ago.



Companies in Hong Kong reported a modest rise in output prices during July, attributing this to a further increase in input costs. Moreover, the extent to which charges rose was stronger than that recorded in June, and above the long-run average for the series. Output price inflation has now been recorded for nine successive months.

Overall Input Costs Index

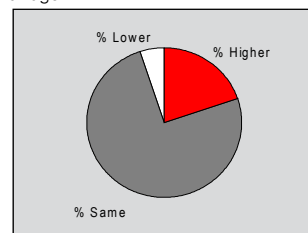
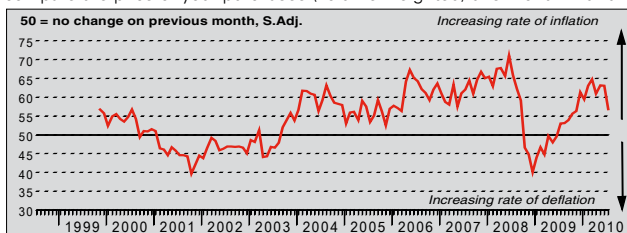
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall input prices faced by companies in Hong Kong increased markedly during July, extending the sequence of sustained rises to thirteen months. However, the rate of input cost inflation slowed notably since June. Both purchase prices and staff costs contributed to the rise in overall costs, although this was more marked in the former.

Input Costs: Purchase Prices Index

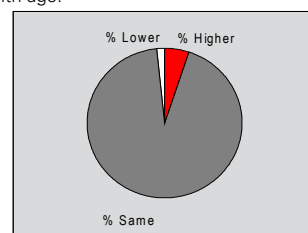
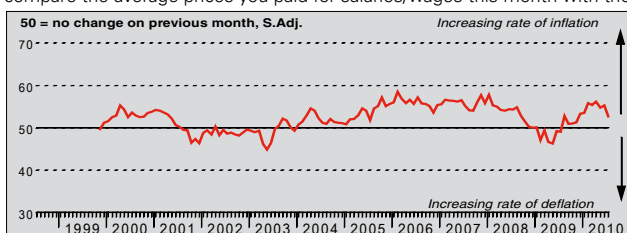
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Companies in Hong Kong reported a marked rise in purchase prices during July, and attributed this to higher raw material prices and unfavourable exchange rate variations. However, the rate at which purchase costs increased slowed sharply since June to the weakest in eight months. Nonetheless, the latest increase, which was the thirteenth in consecutive months, remained above the long-run average for the series.

Input Costs: Staff Costs Index

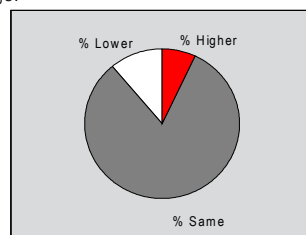
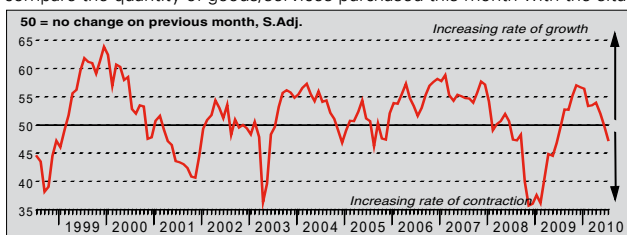
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



July data signalled a solid rise in staff costs faced by companies operating in Hong Kong. Increases in salaries have now been reported in each month since August 2009. However, the rate of wage inflation slowed since June to the weakest since November 2009, and the vast majority of panellists (approximately 93%) indicated that salaries remained unchanged during the month.

Quantity of Purchases Index

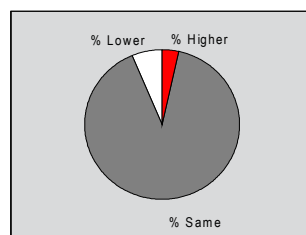
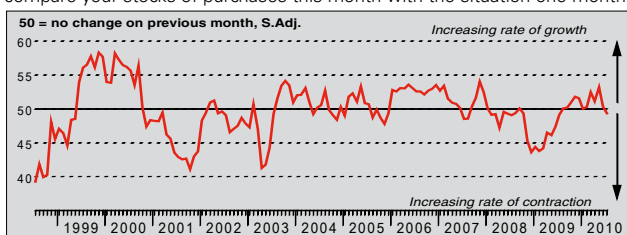
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



July data signalled a solid reduction in purchasing activity at companies in Hong Kong. This was the second successive month where a fall in input buying was reported, with the latest decrease faster than in the previous survey period. Panellists attributed the decline in purchasing activity to slower new order growth.

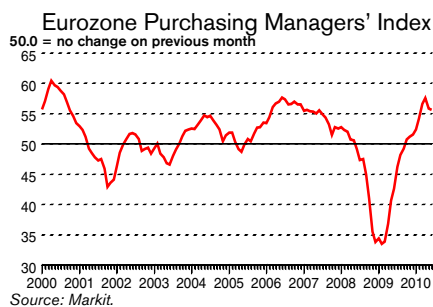
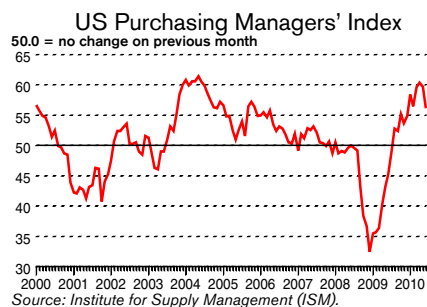
Stocks of Purchases Index

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



Stocks of purchases held at companies in Hong Kong fell during July. This ended an eleven-month sequence where pre-production inventories had increased. Anecdotal evidence suggested that stocks fell due to reduced input buying and shipment delays. However, reflective of the marginal pace of decline, the vast majority of panellists (approximately 90%) indicated that stocks of purchases were unchanged since June.

International PMI



June's ISM survey signalled a marked strengthening of business conditions in the US manufacturing sector. However, posting 56.2, the headline PMI fell from May's reading of 59.7 to a six-month low. Nonetheless, the latest growth was above the historical average for the series.

The Markit Eurozone Manufacturing PMI™ posted 55.6 in June, down from 55.8 in May – a four-month low and down further from April's near four-year high. Nonetheless, this was still well above the long-run average for the series. The PMI has now signalled improving business conditions for nine months in a row.

The headline HSBC China Manufacturing PMI™ posted 50.4 in June, down from 52.7 in May. This signalled only a marginal improvement in Chinese manufacturing sector operating conditions. Nonetheless, growth has now been recorded for fifteen successive months.

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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