

Embargoed until: 10:30 (HONG KONG), 3 September 2010

HSBC Hong Kong PMI™

Strengthening of business conditions in Hong Kong private sector sustained for thirteenth successive month.

Key findings:

- Overall new order and output growth was solid.
- Employment rose to boost operating capacity.
- Input cost inflation accelerated markedly from July's eight-month low.

August data signalled a modest improvement in business conditions in the Hong Kong private sector economy. The latest growth was stronger than that recorded in July, although remained lower than the rises indicated at the end of 2009/beginning of 2010. New order expansion gathered pace in August, boosting output and supporting the increase in the headline PMI. Employment also rose, albeit at a weaker rate. Meanwhile, input cost inflation accelerated, driven by higher purchase and wage costs. Output prices also increased, although strong competition limited the extent of the rise.

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 52.3 in August, up from 51.3 in July. This signalled a strengthening of business conditions which was the thirteenth in successive months. Moreover, the latest expansion was faster than that recorded in July.

Incoming new business was reported to have increased solidly during August, regaining momentum lost in the previous month. New orders received from mainland China also rose, although the rate of growth slowed for a fourth successive month. Nonetheless, the latest increase was above the long-run average for the series.

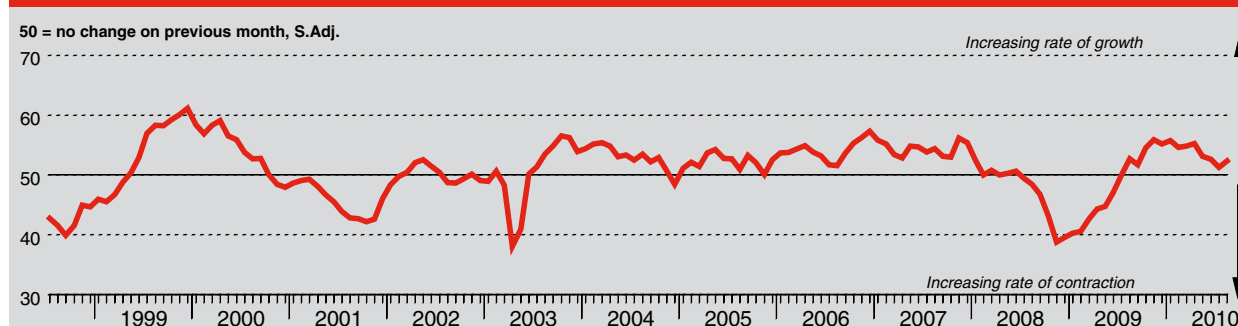
The sustained rise in overall new orders supported a fourteenth consecutive increase in output. The expansion in activity also accelerated since July, albeit remaining modest. In contrast to the previous survey period, backlogs of work at companies in Hong Kong increased during August. This indicated that pressures on operating capacity existed.

Employment in the Hong Kong private sector rose during August, reflecting sustained growth in new orders and output. Whilst the increase in staffing levels slowed marginally, it remained above the long-run trend for the series and was the eleventh rise in successive months.

Purchasing activity increased only slightly during August. Where a rise was indicated this was attributed to higher output. Suppliers' delivery times continued to deteriorate, partly due to labour shortages at vendors, putting pressure on operating capacity.

August data signalled a substantial rise in overall input costs faced by companies in Hong Kong. Moreover, input cost inflation accelerated since July. Higher purchase prices and wages both contributed to the rise in overall costs. Subsequently, output prices increased for a tenth successive month. However, the extent of the rise in charges was limited by strong competition for new business.

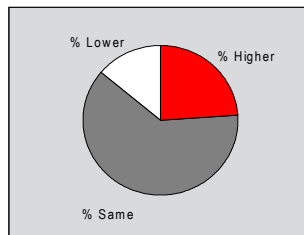
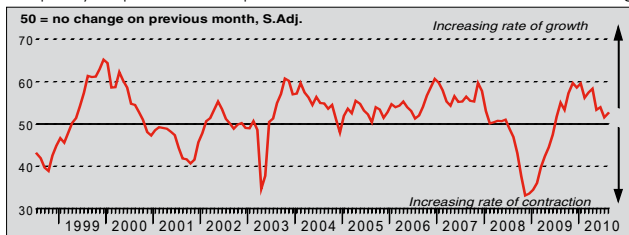
HSBC Hong Kong PMI



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

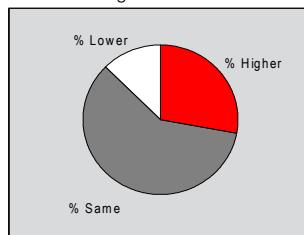
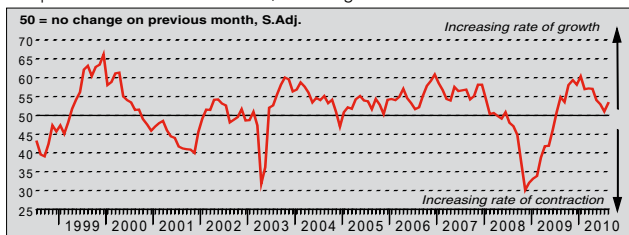
Q. Please compare your production/output this month with the situation one month ago.



Output in the Hong Kong private sector increased solidly during August. Moreover, the rate of growth in activity was faster than that indicated in July, and above the long-run average for the series. Panellists commented that the latest rise in output reflected a further increase in new orders. Activity has now expanded for fourteen successive months.

New Orders Index

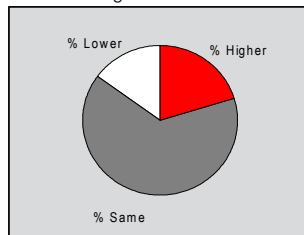
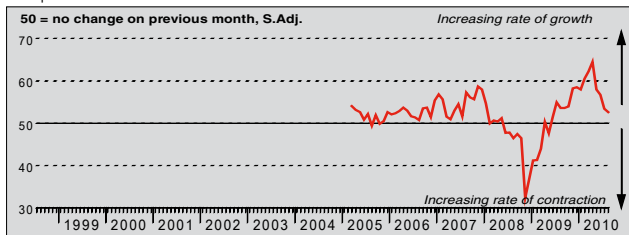
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



New orders received by companies in Hong Kong increased solidly during August, with growth now sustained since July 2009. The latest rise in incoming new business accelerated since July and was the strongest in three months. Anecdotal evidence suggested that ongoing improvements in global economic conditions had boosted new order growth during the month.

New Orders Index: Mainland China

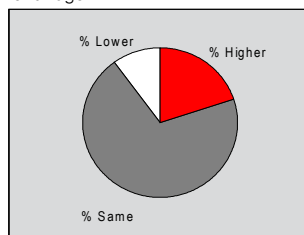
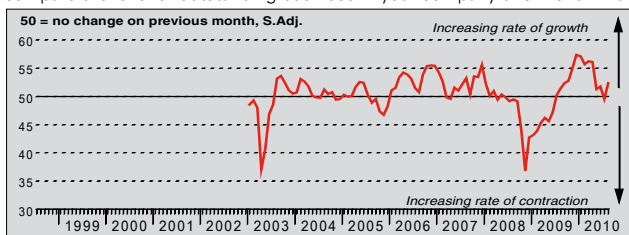
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



August data signalled a solid rise in incoming new business received from mainland China. However, the latest increase in new orders slowed for a fourth successive month to the weakest since June 2009. August's rise in new business remained above the long-run average for the series, although it was much weaker than the expansions recorded at the end of 2009/beginning of 2010.

Backlogs of Work Index

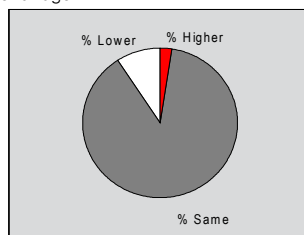
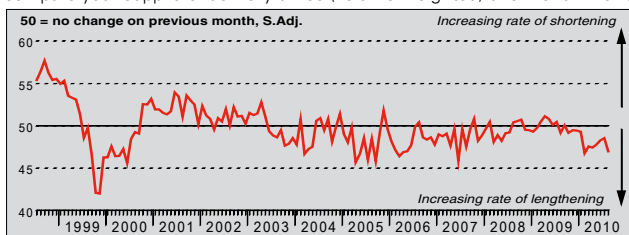
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Companies in Hong Kong reported a modest rise in backlogs of work during August, suggesting that pressures on operating capacity existed. This was in contrast to the previous month, where a slight fall in outstanding business was indicated. However, backlogs have risen in thirteen of the last fourteen months, with the latest increase above the long-run trend.

Suppliers' Delivery Times Index

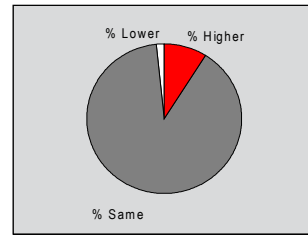
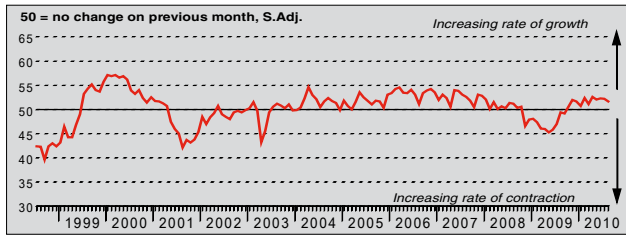
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened during August, with the latest increase the strongest since February. Panellists commented that the deterioration in vendor performance reflected capacity constraints at suppliers due to labour shortages. Nonetheless, the majority of respondents (approximately 88%) indicated that lead times were unchanged since July.

Employment Index

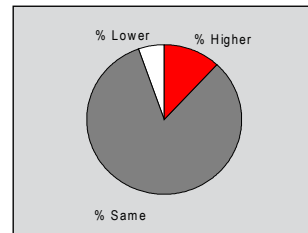
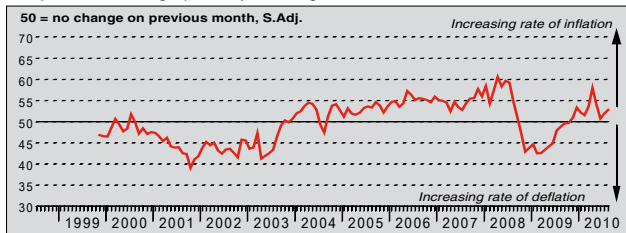
Q. Please compare the level of employment at your unit this month with the situation one month ago.



The seasonally adjusted Employment Index posted modestly above the 50.0 no-change threshold in August, signalling a rise in staffing levels within the Hong Kong private sector. Anecdotal evidence suggested that this reflected further growth in both new orders and activity. Employment has now increased in each of the last eleven months.

Prices Charged Index

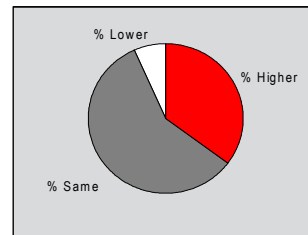
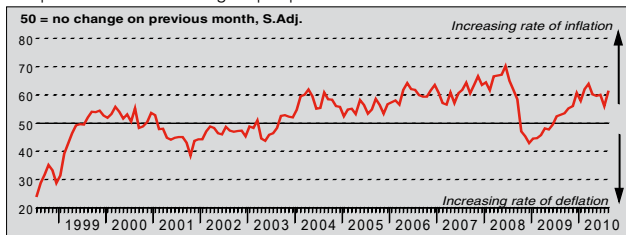
Q. Please compare the average prices you charged this month with the situation one month ago.



Companies in Hong Kong reported a solid rise in charges during August. Moreover, the latest increase in output prices was the sharpest in three months, and strong in the context of historical data. Higher input costs drove the latest rise in charges, although strong competition limited the extent of the increase. Output price inflation has been recorded for ten consecutive months.

Overall Input Costs Index

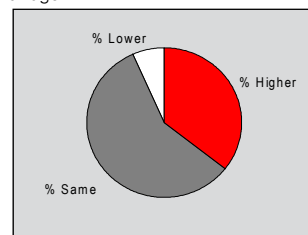
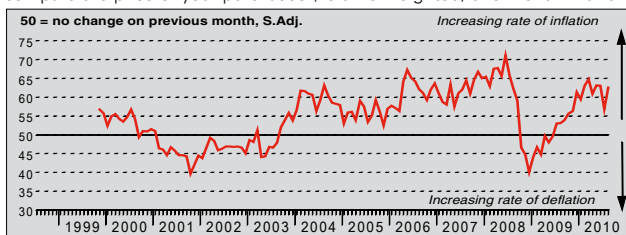
Q. Please compare the overall average input prices this month with the situation one month ago.



August data signalled a substantial rise in overall input costs faced by companies in Hong Kong, with the latest increase the fourteenth in successive months. The rate of input cost inflation accelerated since July to the strongest in five months. Both purchase prices and staff costs contributed to the overall rise in costs, with the former exerting the greatest influence.

Input Costs: Purchase Prices Index

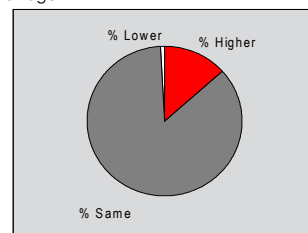
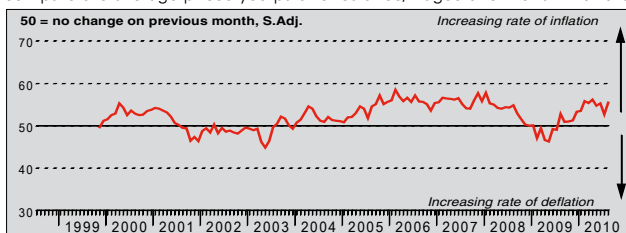
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Companies in Hong Kong reported a substantial rise in purchase costs during August, and attributed this to higher raw material prices and unfavourable exchange rate variations. The latest increase in purchase prices was lower than the recent high recorded in March, although was sharper than in July and markedly higher than the long-run average for the series. Rising purchase prices have been indicated for fourteen consecutive months.

Input Costs: Staff Costs Index

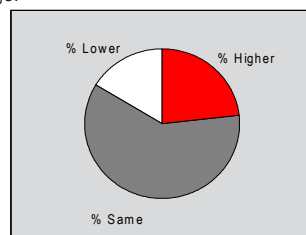
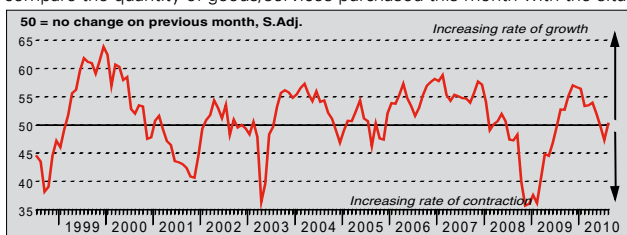
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff costs in Hong Kong were reported to have increased markedly during August, and at the strongest pace in four months. Panellists commented that the rise in wages reflected salary adjustments and improved commissions. Staff costs have increased over each of the last thirteen months, with the latest rate of wage inflation marked in the context of historical data.

Quantity of Purchases Index

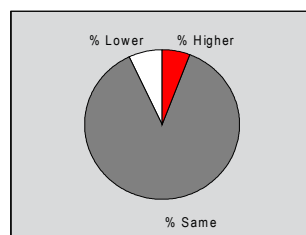
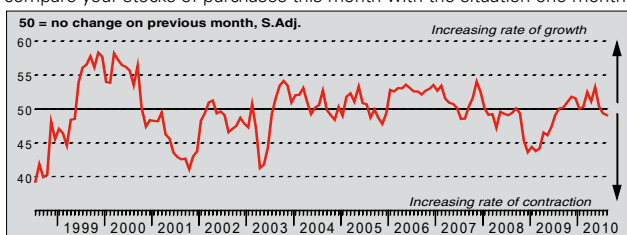
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



After allowing for seasonal adjustments, the Quantity of Purchases Index posted marginally above the 50.0 no-change threshold in August, indicating a small rise in input buying. This was the first such increase in three months, although it remained below the long-run trend for the series. Where an rise in purchasing activity was reported, this was attributed to increased output requirements.

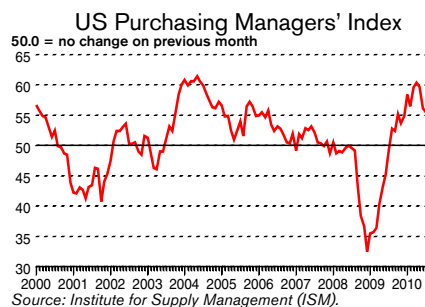
Stocks of Purchases Index

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



Despite the small rise in input buying, stocks of purchases at companies in Hong Kong decreased during August. This was the second successive month where pre-production inventories fell. Panellists attributed the reduction in stocks to late shipments of purchases. However, reflective of the marginal nature of the decline, the majority of respondents (approximately 87%) indicated that inventories were unchanged since July.

International PMI



July's ISM survey signalled a marked strengthening of business conditions in the US manufacturing sector. However, posting 55.5, the headline PMI fell from June's reading of 56.2 to a seven-month low. Nonetheless, the latest growth was above the historical average for the series.

The Markit Eurozone Manufacturing PMI™ rose to a three-month high of 56.7 in July, up from 55.6 in June. The reading signalled the tenth successive monthly improvement in overall operating conditions. Growth of both manufacturing production and new orders accelerated to the fastest since April.

The HSBC China Manufacturing PMI™ posted 49.4 in July, down from 50.4 in June. This pointed to the first month-on-month deterioration in Chinese manufacturing sector operating conditions since March 2009 – a distinct turnaround from the strong sector performance seen at the beginning of 2010.

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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