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HSBC Hong Kong PMI™

Growth of Hong Kong private sector accelerated for second successive month.

Key findings:

- New order expansion remained solid, despite decrease in work received from mainland China.
- Backlogs rose amid pressures on operating capacity.
- Output price inflation accelerated, whilst the increase in input costs slowed.

September data signalled solid growth of the Hong Kong private sector economy. The latest improvement in business conditions was marginally stronger than that recorded in August, and remained above the long-run average for the series. A further increase in incoming new business supported a rise in output, and subsequently the headline PMI. However, new work received from mainland China fell slightly during the month. Nonetheless, employment rose again, as another increase in backlogs suggested that pressure on operating capacity continued. Meanwhile, input cost inflation remained sharp, driven by both higher purchase prices and wage costs. Output prices also increased during September.

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 52.8 in September, up from 52.3 in August. This signalled a solid strengthening of business conditions, which was the fastest in four months. Growth of the Hong Kong private sector economy has now been recorded for fourteen successive months.

Overall incoming new business increased during September, maintaining the sequence of expansion seen since July 2009. Moreover, the pace of growth accelerated marginally since August and was above the long-run average for the

series. In contrast, new orders received from mainland China decreased – the first contraction recorded since May 2009.

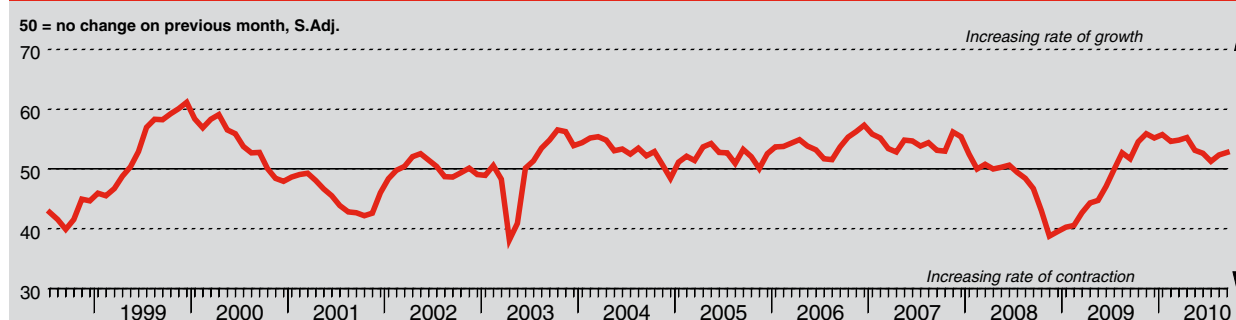
Nonetheless, the rise in overall new work intakes supported a further increase in activity. The latest expansion in output was the strongest in five months. Despite this, backlogs of work at companies in Hong Kong rose for a second successive month, indicating that pressure on operating capacity continued.

September data signalled a modest increase in employment in the Hong Kong private sector, suggesting that companies were still aiming to boost capacity to accommodate increased workloads.

Purchasing activity rose during the month, reflective of growth in new orders and output. Despite the solid increase in input buying, suppliers' delivery times lengthened only slightly.

Overall input costs were reported to have increased markedly during September, driven by higher purchase prices and staff costs. The rate of overall input price inflation eased during the month, although remained steep in the context of historical data. Output prices also rose during September, with panellists attributing higher charges to the increase in costs. Moreover, the latest increase in output prices was the strongest in four months.

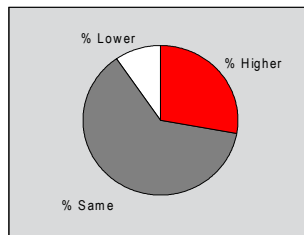
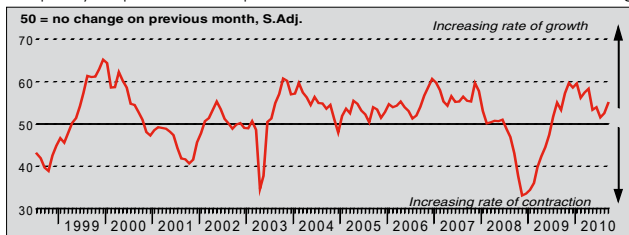
HSBC Hong Kong PMI



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

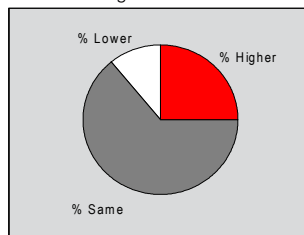
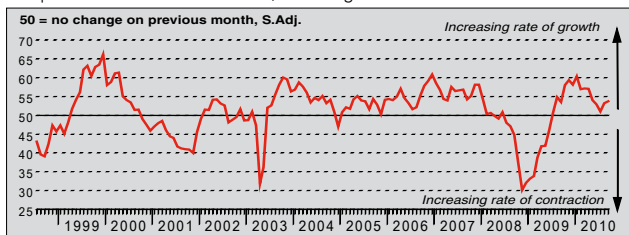
Q. Please compare your production/output this month with the situation one month ago.



Private sector companies in Hong Kong reported a marked rise in activity during September. Moreover, the rate at which output grew accelerated since August to the fastest in five months. Approximately 28% of panellists indicated that activity had increased during the month, and attributed this to a rise in incoming new business.

New Orders Index

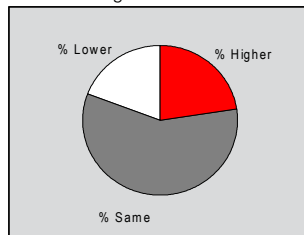
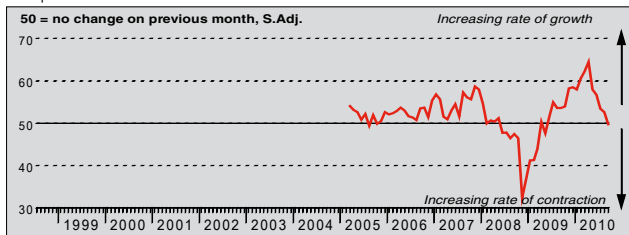
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



September data signalled a solid rise in incoming new business received by companies in Hong Kong. The latest increase in new orders was faster than in August, and above the long-run average for the series. Anecdotal evidence suggested that the rise in new order volumes reflected ongoing improvements in global economic conditions. New work intakes have now increased over each of the last fifteen months.

New Orders Index: Mainland China

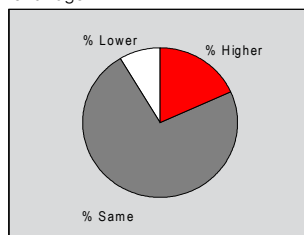
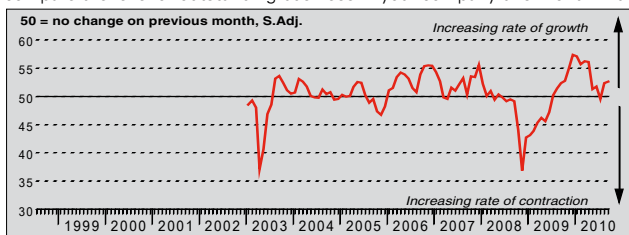
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



After allowing for seasonal factors, new orders received from mainland China fell fractionally during September. This ended a fifteen-month sequence of growth. Moreover, the fall in the respective index was in contrast to that indicated for overall new business (which expanded at a faster rate during the month).

Backlogs of Work Index

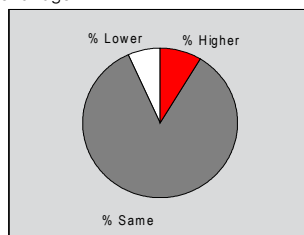
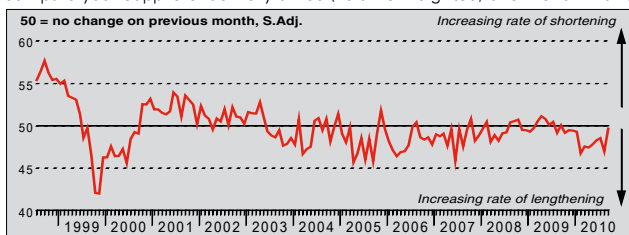
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at companies in Hong Kong increased solidly during September, indicating that pressures on operating capacity persisted. The extent to which outstanding business accumulated was broadly unchanged since August. Backlogs have increased in fourteen of the last fifteen months.

Suppliers' Delivery Times Index

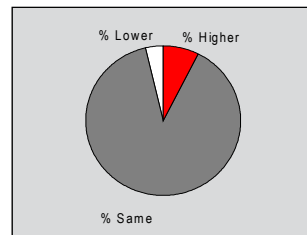
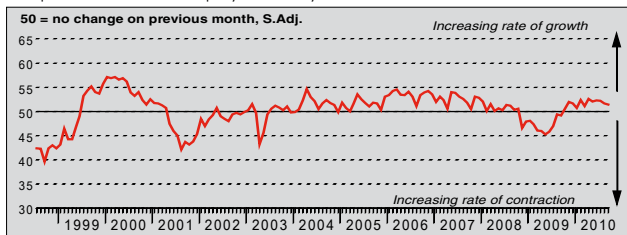
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted slightly below the 50.0 no-change threshold during September, indicating a fractional increase in lead times. The latest deterioration in vendor performance, which was the twelfth in successive months, was attributed to an increase in purchasing activity.

Employment Index

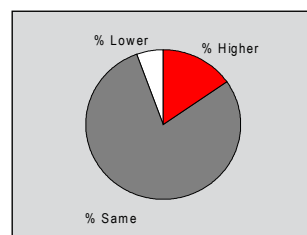
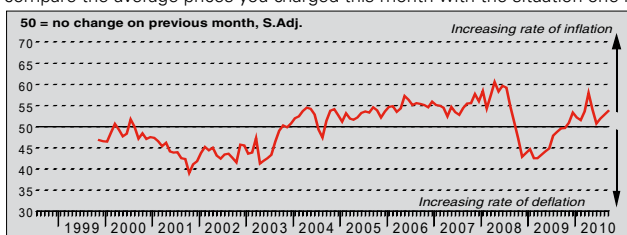
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment within the Hong Kong private sector increased modestly during September. This was the twelfth successive month where a rise in staffing levels was indicated, with the latest increase above the long-run average for the series. Panellists commented that the rise in employment reflected sustained growth in new orders and output.

Prices Charged Index

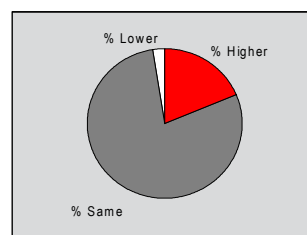
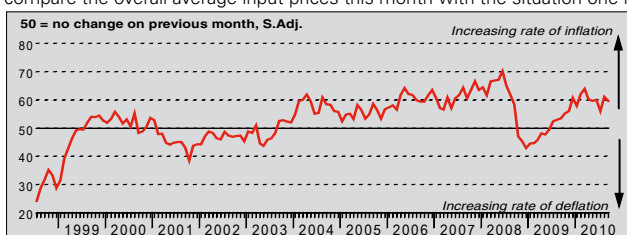
Q. Please compare the average prices you charged this month with the situation one month ago.



Companies in Hong Kong reported a solid rise in charges during September, with output price inflation now recorded for eleven months. The latest increase in charges was the sharpest in four months and strong in the context of historical data. Anecdotal evidence suggested that the rise in output prices reflected a further increase in input costs.

Overall Input Costs Index

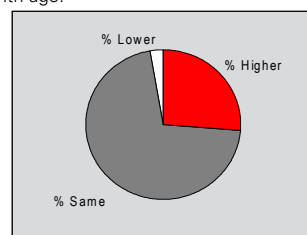
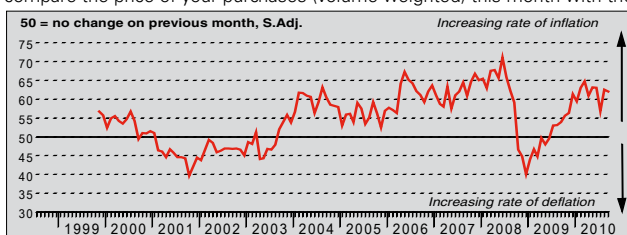
Q. Please compare the overall average input prices this month with the situation one month ago.



September data signalled a marked rise in input prices faced by companies in Hong Kong, with input cost inflation now sustained for fifteen months. Higher purchase prices and staff costs both contributed to the latest increase in overall costs. Whilst the rate of input cost inflation slowed marginally since August, it remained above the long-run average for the series.

Input Costs: Purchase Prices Index

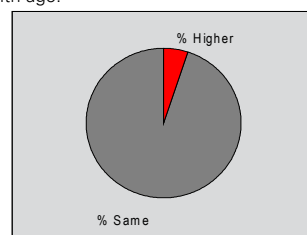
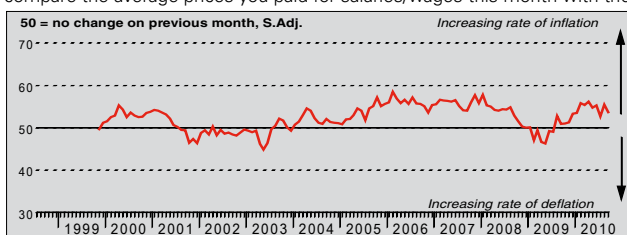
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Companies in Hong Kong noted that purchase prices had increased substantially during September. The extent to which purchase costs rose was slightly weaker than in August, although remained sharp in the context of historical data. Panellists indicated that rising raw material prices had contributed to the latest increase in purchase costs.

Input Costs: Staff Costs Index

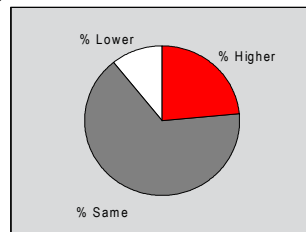
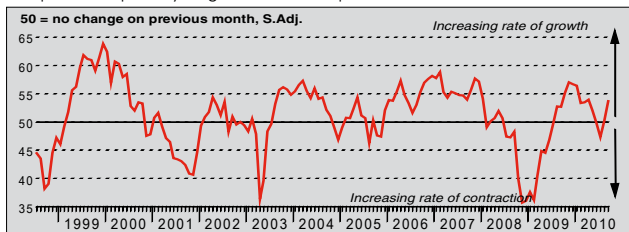
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff costs were reported to have increased solidly during September. This was the fourteenth consecutive month where a rise in staff costs was indicated. However, the rate of wage inflation slowed since August, and the vast majority of panellists (approximately 95%) indicated that salaries remained unchanged during the month.

Quantity of Purchases Index

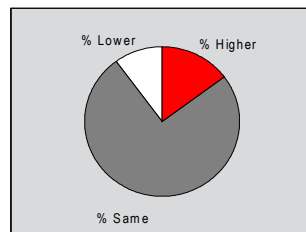
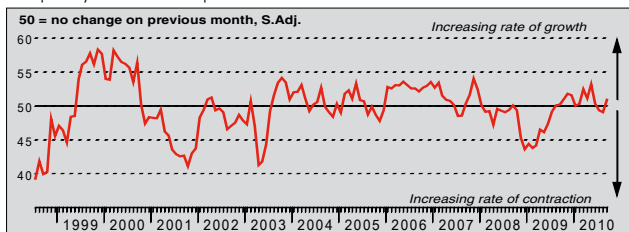
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



Companies in Hong Kong reported a second successive rise in purchasing activity during September, attributing the latest increase to sustained growth in new orders and activity. Moreover, September's rise in input buying was the sharpest in five months, reflective of a stronger expansion in output.

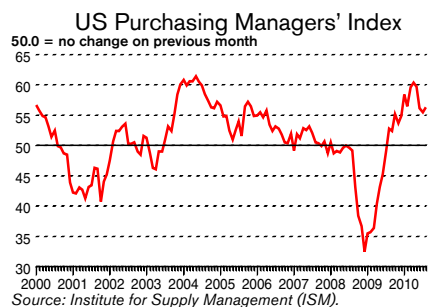
Stocks of Purchases Index

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



September data signalled a marginal rise in stocks of purchases held at companies in Hong Kong, with approximately 15% of panellists indicating that pre-production inventories had increased since August. This was in contrast to the previous two survey periods, where a reduction in pre-production inventories was reported.

International PMI



August's ISM survey signalled a marked strengthening of business conditions in the US manufacturing sector. The headline PMI rose from July's reading of 55.5 to 56.3 – a three-month high. Moreover, the latest growth was comfortably above the historical average for the series.

The Markit Eurozone Manufacturing PMI™ fell to a six-month low of 55.1 in August, down from 56.7 in July. Although the PMI signalled a slight loss of growth momentum, the rate of expansion remained robust and faster than the survey average. Business conditions have now improved for eleven consecutive months.

The HSBC China Manufacturing Purchasing Managers' Index™ (PMI™) rose to a three-month high of 51.9 in August, pointing to a moderate improvement in Chinese manufacturing sector operating conditions. However, the index remained over five points lower than the series-record high registered at the start of the year.

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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