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## HSBC Hong Kong PMI™

December PMI data signalled fastest expansion of Hong Kong private sector economy in eight months.

### Key findings:

- Growth of new business at eleven-month high.
- Backlogs of work rose, indicating pressure on operating capacity.
- Purchase costs rose at fastest pace in series history, driving steep increase in overall costs.

December PMI data signalled a marked improvement of business conditions in the Hong Kong economy. A faster rise in new orders supported a marked increase in output, although the expansion in new business received from mainland China slowed. Whilst capacity constraints were indicated again through a sharp rise in backlogs, employment decreased slightly. Meanwhile, input costs rose at their steepest pace in the series history, with charges also increasing strongly.

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 55.0 in December, up from 53.5 in November. This was the fifth consecutive rise in the PMI from the twelve-month low recorded in July, with the latest reading signalling a marked expansion of the Hong Kong private sector economy. Moreover, the rate of growth was above the long-run average for the series, pointing to a strong finish to the year.

Incoming new business received by companies in Hong Kong increased sharply during December. This was the eighteenth successive month where a rise in new work intakes was recorded, with the latest expansion the fastest since January. New orders received from mainland China also increased during the month. The latest rise weakened from the five-month high posted in November, but remained marginally stronger than the long-run series average.

December data indicated marked growth of output, reflective

of the sustained expansion in overall new work intakes. Despite this, backlogs of work increased again, and at the fastest pace in eleven months. This suggested that operating capacity continued to be strained by rising new order volumes.

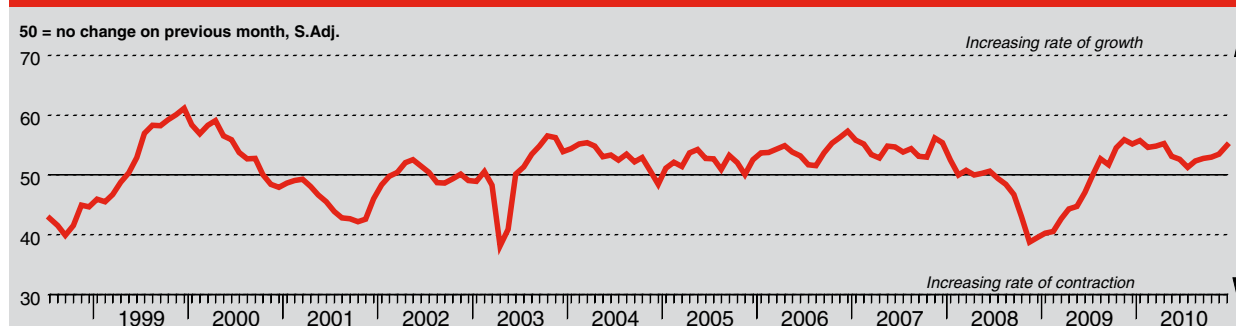
Employment in the Hong Kong private sector economy fell marginally for a second consecutive month in December. However, the vast majority of panellists indicated that staffing levels were unchanged since November.

Companies in Hong Kong reported an increase in purchasing activity in December. This followed a slight reduction in input buying in November. The rise in purchasing volumes reflected sustained growth of both new business and output. Pre-production inventories also increased marginally during the month, in line with the rise in input buying and higher output requirements.

Overall input costs faced by companies in Hong Kong increased considerably during December. The rise was driven by both purchase prices and staff costs, but particularly the former. The latest increases in overall input costs and purchase prices were the fastest in their respective series histories. Salaries also rose markedly during the month, with December's wage inflation above the historical average.

Charges rose sharply in the month, reflective of the considerable increase in overall input costs. Whilst the rate of output price inflation eased slightly since November, it remained notably steep.

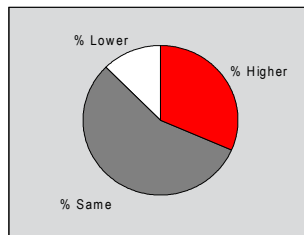
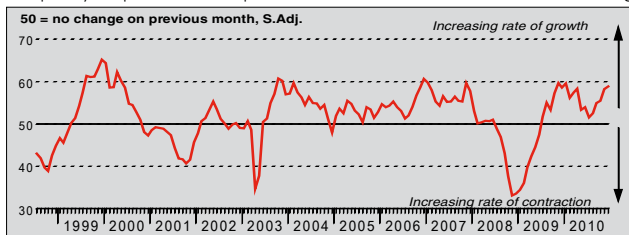
HSBC Hong Kong PMI



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

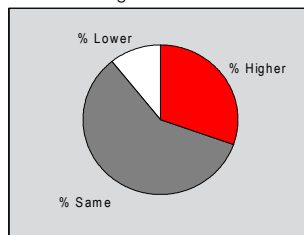
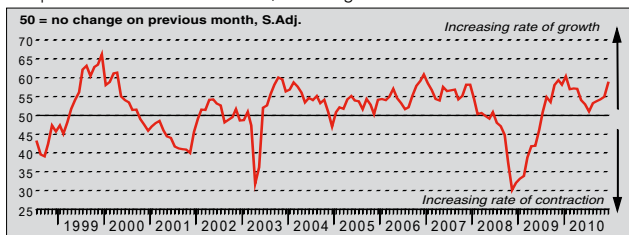
Q. Please compare your production/output this month with the situation one month ago.



December data signalled a marked rise in output in the Hong Kong private sector economy, extending the sequence of sustained growth to eighteen months. Moreover, the rate of expansion was the fastest since January and strong in the context of historical data. Panellists reporting an increase in activity attributed this to higher new business volumes.

### New Orders Index

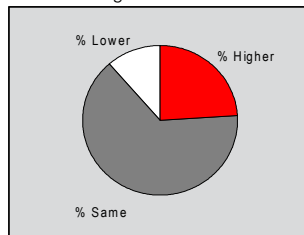
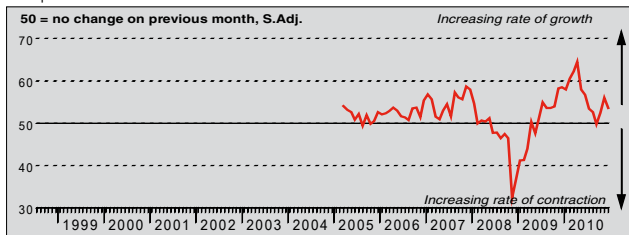
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



Companies in Hong Kong reported a marked rise in new orders received during December, with approximately 30% of panellists noting an expansion in new work intakes from the previous month. The rate of new business growth accelerated solidly since November and was the strongest in eleven months. New orders have now increased in each month since July 2009.

### New Orders Index: Mainland China

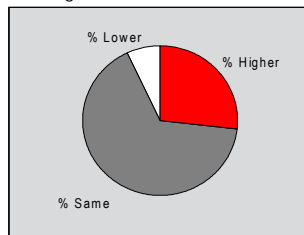
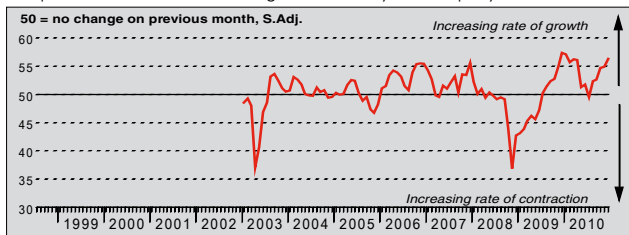
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders received from mainland China increased solidly during December, with expansion now recorded for three successive months. However, the rate of growth slowed from the five-month high reported in November. Nonetheless, the latest increase in new business received from the mainland was marginally stronger than the long-run average for the series.

### Backlogs of Work Index

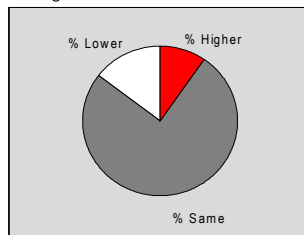
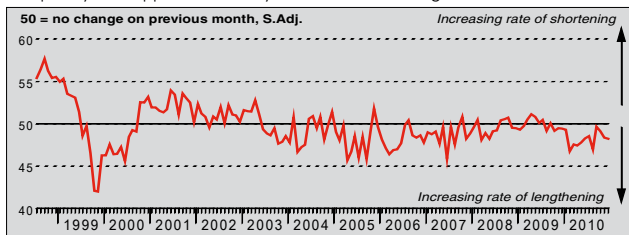
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at companies in Hong Kong increased markedly during December, suggesting that pressure on operating capacity persisted as new workloads continued to rise. Moreover, the rate at which outstanding business accumulated was the steepest since January and notably sharp in the context of historical data.

### Suppliers' Delivery Times Index

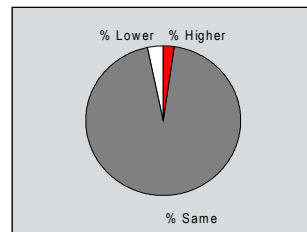
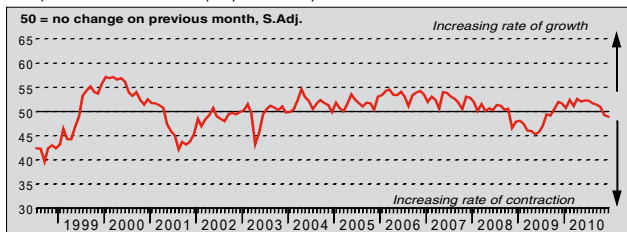
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Companies in Hong Kong reported a moderate lengthening in suppliers' delivery times during December. This was the fifteenth successive month where vendor performance deteriorated, with the latest worsening in lead times the strongest since August. Anecdotal evidence suggested that longer delivery times reflected increased purchasing activity.

### Employment Index

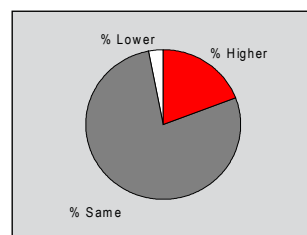
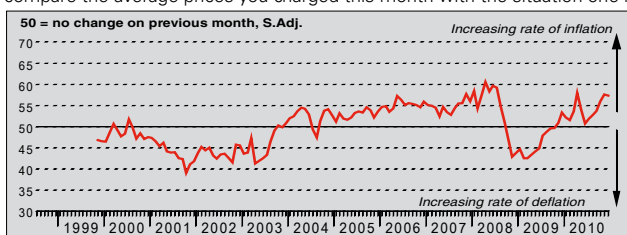
Q. Please compare the level of employment at your unit this month with the situation one month ago.



December data signalled a marginal reduction in employment in the Hong Kong private sector, despite the sustained growth of new orders and activity. This was the second consecutive month where a decline in employment was indicated, although the vast majority of panellists (approximately 94%) indicated that staffing levels were unchanged since November.

### Prices Charged Index

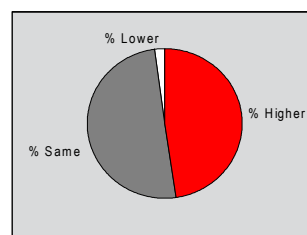
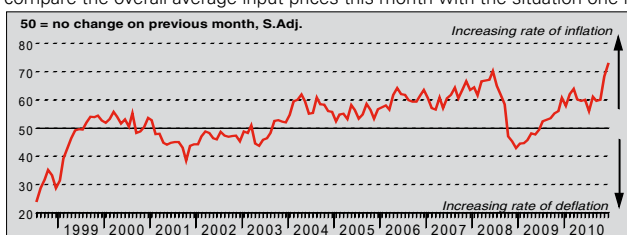
Q. Please compare the average prices you charged this month with the situation one month ago.



Companies in Hong Kong increased their charges markedly during December. The extent to which output prices rose was only slightly weaker than that indicated in November, and remained sharp in the context of historical data. Panellists commented that a further rise in input costs contributed to the latest increase in charges. Output price inflation has now been sustained for fourteen months.

### Overall Input Costs Index

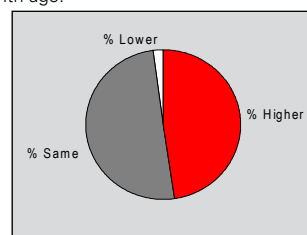
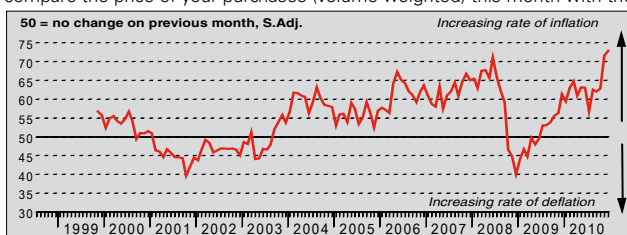
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall input prices faced by companies in Hong Kong increased considerably during December, with approximately 48% of panellists indicating a rise in costs. Moreover, the rate of input price inflation accelerated from that recorded in November and was the fastest in the series history. Both higher purchase costs and salaries drove the rise in overall input prices, although the increase in the former was particularly strong.

### Input Costs: Purchase Prices Index

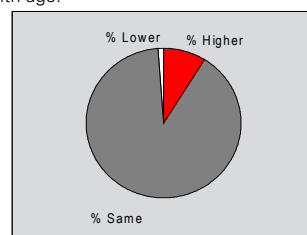
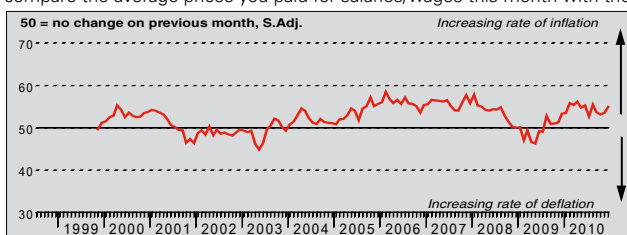
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Companies in Hong Kong reported a steep rise in purchase prices during December, attributing this to a further increase in raw material prices. The latest rise in purchase prices was the eighteenth in successive months. Moreover, the rate of purchase price inflation accelerated again to the strongest in the series history.

### Input Costs: Staff Costs Index

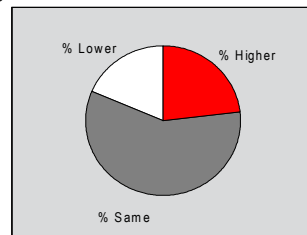
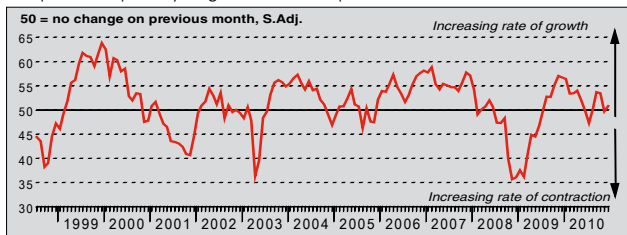
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



December data signalled a marked rise in staff costs in the Hong Kong private sector. This was the seventeenth month running where an increase in wages has been recorded, with the latest rise the strongest in four months and above the long-run series average. Some panellists commented that there had been a general increase in salaries, whilst others noted that bonuses had been paid due to good performance.

### Quantity of Purchases Index

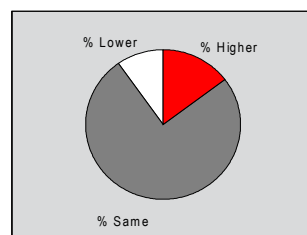
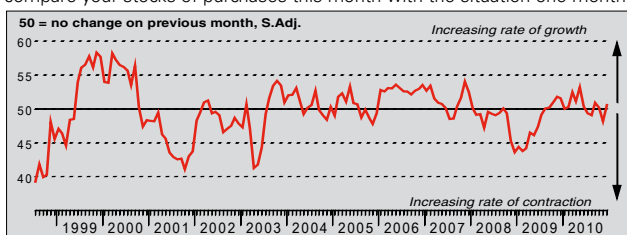
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



Purchasing activity increased marginally during December. This was in contrast to last the previous survey period, where a slight reduction in input buying was indicated. The rise in purchasing activity was attributed to sustained growth of both output and new business, but the extent of the increase was slightly below the historical average for the series.

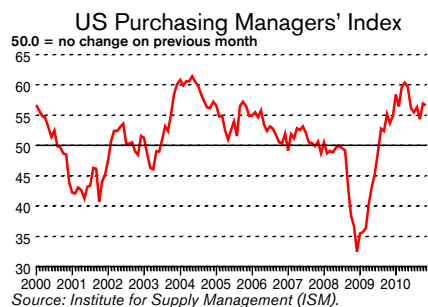
### Stocks of Purchases Index

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



Companies in Hong Kong reported a marginal rise in stocks of purchases during December. The rise in pre-production inventories was the third in four months (a moderate reduction was recorded in November). Anecdotal evidence suggested that the expansion of stocks of purchases reflected an increase in input buying, alongside higher output requirements.

### International PMI



November's ISM survey signalled a marked strengthening of business conditions in the US manufacturing sector. However, posting 56.6 in November, the headline PMI fell slightly from October's reading of 56.9. Nevertheless, the latest growth was comfortably faster than the long-run average for the series.

The Markit Eurozone Manufacturing PMI™ recorded 55.3 in November, up from October's 54.6. The latest reading signalled overall growth of the Eurozone manufacturing sector for the fourteenth successive month. The latest expansion was strong in the context of historical data.

The Chinese manufacturing sector strengthened further in November, with overall business conditions improving at the strongest pace since March. This was signalled by the headline HSBC Purchasing Managers' Index™ posting 55.3, up from 54.8 in October. Growth has now been sustained for four months running.

### 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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