

Embargoed until: 10:30 (HONG KONG), 7 February 2011

HSBC Hong Kong PMI™

Growth of Hong Kong private sector economy sustained in January. Output and new orders rose at strong rates.

Key findings:

- Expansion of new business slowed slightly, but remained marked.
- Employment rose for the first time in three months.
- Input and output prices continued to increase.

January PMI data signalled a marked improvement of business conditions in the Hong Kong economy. The rate of expansion was broadly unchanged from that reported in December, despite slightly weaker new order and output growth. Backlogs of work increased again, with companies raising staffing levels in order to boost operating capacity. Input cost inflation remained sharp in January, leading to a further rise in output prices.

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 55.2 in January, up fractionally from 55.0 in December. The latest reading signalled a marked strengthening of operating conditions in the Hong Kong private sector economy, where improvements have been recorded in each month since August 2009. Moreover, the rate of growth was strong in the context of historical data.

Companies in Hong Kong reported a marked rise in incoming new business received during January. The latest expansion in new orders eased slightly from the previous survey period, but remained above the long-run trend. New work intakes received from mainland China increased solidly during January, with the rate of growth broadly unchanged from the previous survey period.

The rise in overall new business supported a further expansion of output in January. Reflective of the slower increase in new

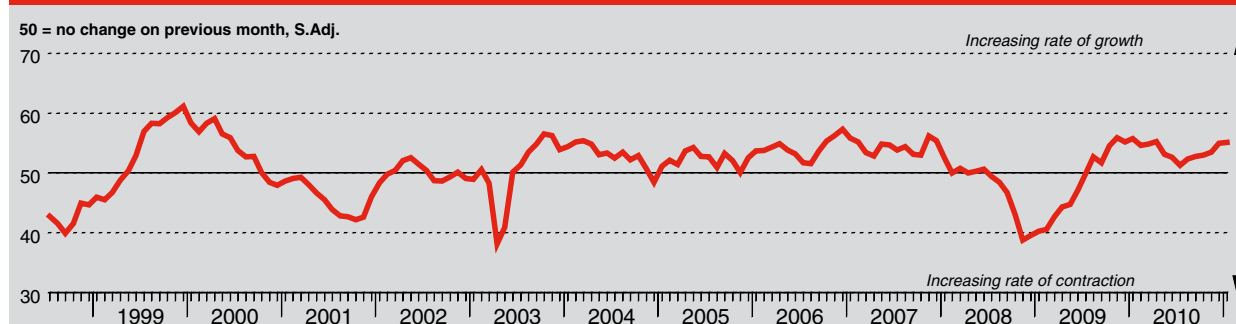
work intakes, the growth in output was also weaker. Nonetheless, outstanding business rose again, suggesting that pressure on operating capacity persisted. The extent to which backlogs accumulated remained sharp in the context of historical data, but was slower than in the previous survey period.

January data signalled a rise in employment in the Hong Kong private sector economy. This was the first increase in staffing levels seen in three months. However, the rate of growth was only marginal, with the majority of panellists indicating that employment was unchanged during the month.

Despite the marked rise in new orders in January, there was a fractional reduction in purchasing activity. Nonetheless, suppliers' delivery times lengthened markedly and at one of the steepest rates in the series history. Panellists attributed this to problems with supply side logistics. Stocks of purchases fell marginally during January, with anecdotal evidence suggesting that longer lead times and higher input costs led companies to utilise existing inventories.

Overall input costs faced by companies in Hong Kong increased substantially during January. Higher purchase prices and salaries drove the rise in overall costs, but the former had the greater impact. However, the rate of input cost inflation slowed since December. Subsequently, output prices also increased during the month, but at a slower pace.

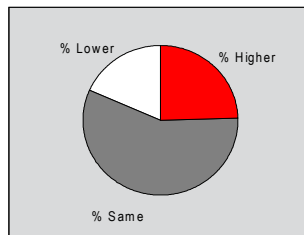
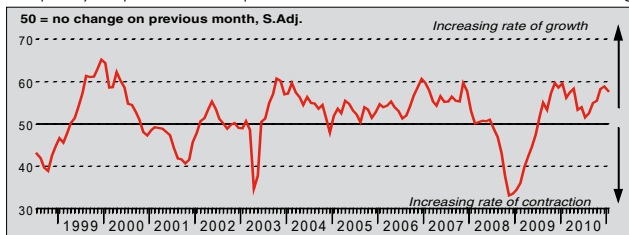
HSBC Hong Kong PMI



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

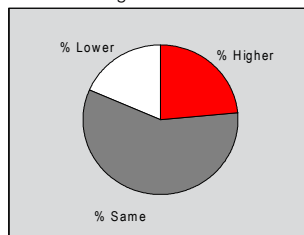
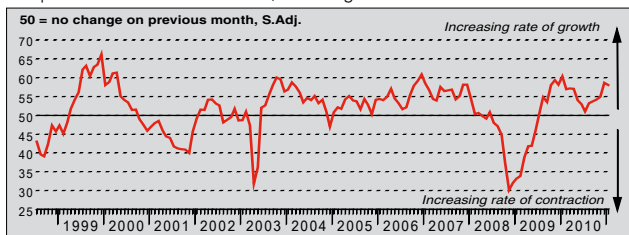
Q. Please compare your production/output this month with the situation one month ago.



January data signalled a marked rise in output in the Hong Kong private sector economy. However, the rate of growth slowed marginally from December's eleven-month high. This was attributed to a weaker expansion in incoming new business. Nonetheless, the latest increase in output, which was the nineteenth in successive months, remained above the long-run average for the series.

New Orders Index

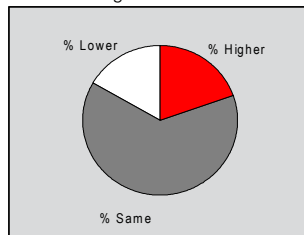
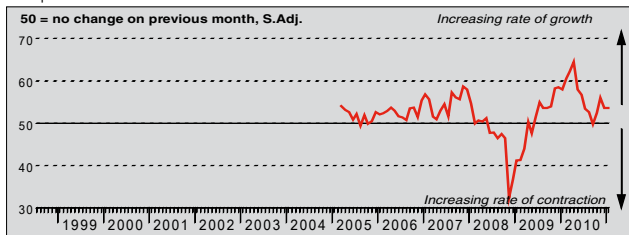
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



Companies in Hong Kong reported a marked rise in new orders received during January, with growth now sustained since July 2009. Panellists cited ongoing improvements in global economic conditions as the main driver of the latest rise in new work intakes. The rate of new order expansion was strong in the context of historical data, but slowed slightly on the month.

New Orders Index: Mainland China

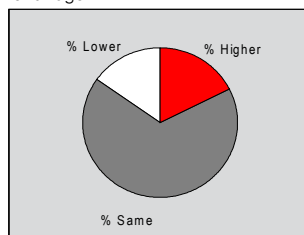
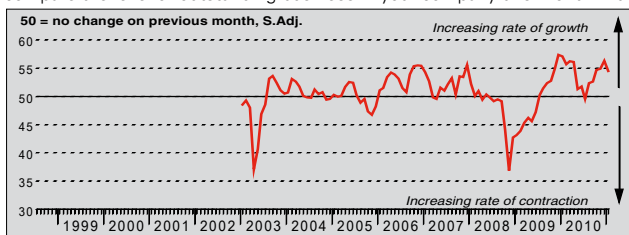
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders received from mainland China increased for a fourth consecutive month in January, with the latest rate of expansion broadly unchanged from the previous month and above the long-run series trend. Approximately 20% of panellists indicated that new business received from mainland China had increased in the month, attributing this to ongoing improvements in economic conditions that supported a rise in demand.

Backlogs of Work Index

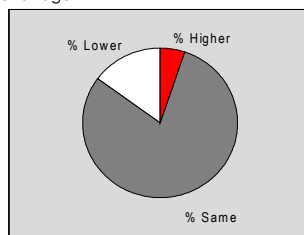
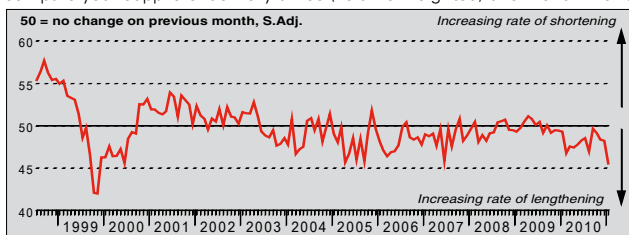
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at companies in Hong Kong increased markedly during January, indicating a degree of pressure on operating capacity. Anecdotal evidence suggested that output growth had been insufficient to meet that of new orders. The latest accumulation in outstanding business was the weakest in four months, but sharp in the context of historical data.

Suppliers' Delivery Times Index

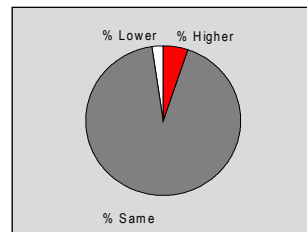
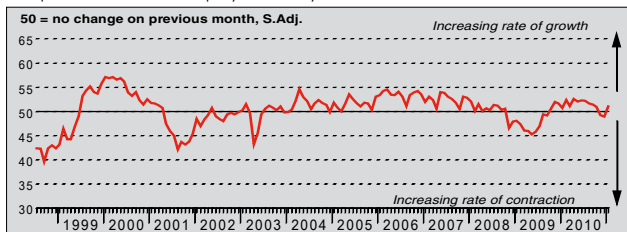
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Companies in Hong Kong reported a marked lengthening in suppliers' delivery times during January. Moreover, the extent to which vendor performance deteriorated was the third-sharpest in the series history. Panellists commented that problems with supply side logistics had led to the lengthening in lead times during the month.

Employment Index

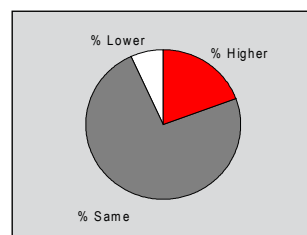
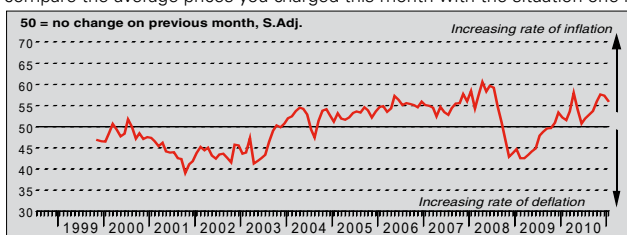
Q. Please compare the level of employment at your unit this month with the situation one month ago.



January data signalled a marginal rise in employment in the Hong Kong private sector economy. This ended a two-month period where staffing levels had decreased. Panellists commented that a further rise in new work intakes had driven job creation. However, reflective of the marginal nature of the increase in employment, the majority of respondents (approximately 92%) indicated that staffing levels were unchanged since December.

Prices Charged Index

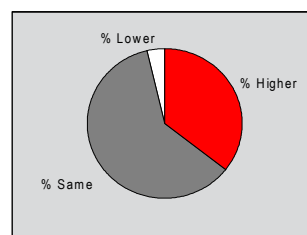
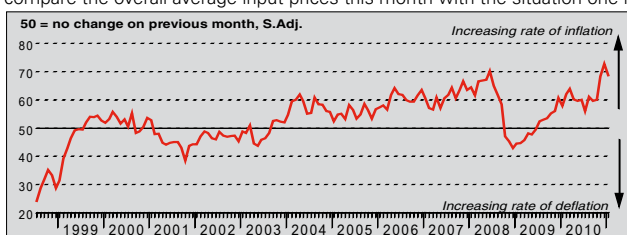
Q. Please compare the average prices you charged this month with the situation one month ago.



Companies in Hong Kong increased their charges markedly during January, citing higher input costs as the main driver of output price inflation. The rate at which charges rose was the slowest in three months, but remained sharp in the context of historical data. Output price inflation has now been sustained for fifteen successive months.

Overall Input Costs Index

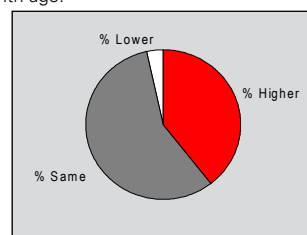
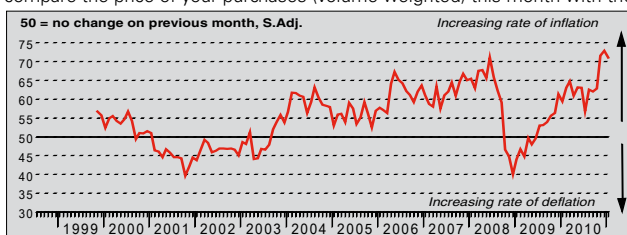
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall input costs faced by companies in Hong Kong increased substantially during January. Rises in both purchase prices and staff costs contributed to the increase in overall input prices, with the former having the largest impact. The rate of input cost inflation slowed from the series high recorded in December, but remained one of the fastest increases in the series history.

Input Costs: Purchase Prices Index

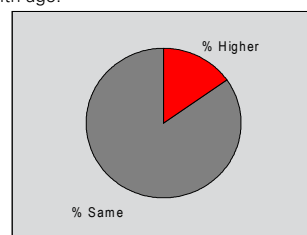
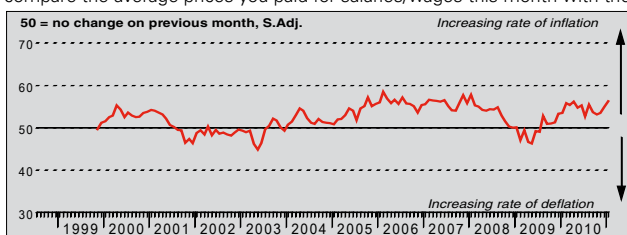
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Companies in Hong Kong reported a considerable rise in purchase prices during January. Approximately 39% of panellists indicated that purchase costs were higher than in the previous survey period, and attributed this to a rise in raw material costs and unfavourable exchange rate variations. Purchase prices have now increased for nineteen successive months, with the latest rise one of the steepest in the series history.

Input Costs: Staff Costs Index

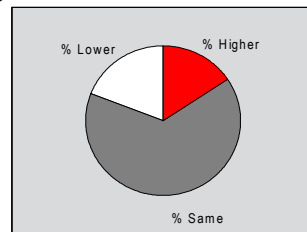
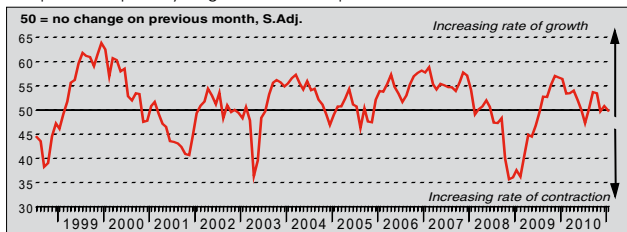
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff costs in the Hong Kong private sector increased markedly during January, with rises now recorded in each month since August 2009. Moreover, with approximately 15% of panellists indicating that salaries were higher than in the previous survey period, wage inflation was the strongest in three years and above the long-run trend.

Quantity of Purchases Index

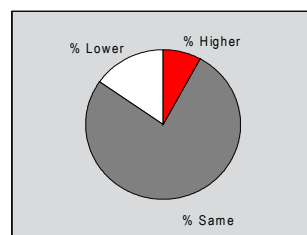
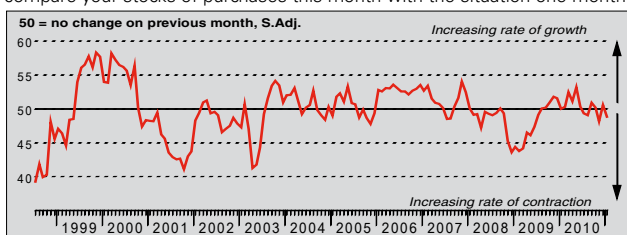
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index posted fractionally below the 50.0 no-change threshold in January, indicating a negligible decrease in input buying during the month. Panellists reporting a reduction in purchasing activity attributed this to lower new order volumes (approximately 19% of respondents noted that input buying decreased on the month).

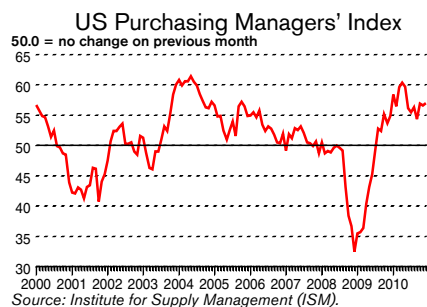
Stocks of Purchases Index

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



Stocks of purchases at companies in Hong Kong fell marginally during January. This was in contrast to the previous survey period where a slight increase in pre-production inventories was indicated. Anecdotal evidence suggested that existing stocks were utilised in order to partially fulfil new order obligations, whilst some panellists also noted that longer lead times and higher input costs had led them to draw from current inventories.

International PMI



December's ISM survey signalled a marked strengthening of business conditions in the US manufacturing sector, with the headline PMI posting 57.0. Moreover, this rose from November's 56.6 to a seven-month high. The latest expansion was strong in the context of historical data.

The Markit Eurozone Manufacturing PMI™ rose to 57.1 in December. This was the highest reading since April's 46-month peak and above the long-run series average. The level of the PMI rose throughout Q4 2010 and has remained above the neutral 50.0 mark for 15 months in a row.

December data pointed to a continued improvement of Chinese manufacturing sector operating conditions. However, overall growth lost momentum, with the headline Index falling to a three-month low of 54.4 in December. Nonetheless, the expansion for Q4 as a whole was the strongest since Q1 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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