

Embargoed until: 10:30 (HONG KONG), 3 March 2011

HSBC Hong Kong PMI™

Output growth weakened to six-month low, while input price inflation remained marked.

Key findings:

- New business increased at slowest pace since September 2010.
- Job creation recorded for the second consecutive month.
- Marked rates of both output and input price inflation.

February's PMI data signalled a solid improvement in business conditions within Hong Kong. This reflected a continued rise in the levels of output and new orders during the latest survey period. However, both increased at slower rates, while input price inflation remained strong.

The headline HSBC Hong Kong PMI™ – a composite index designed to provide timely indications of changes in prevailing business conditions in the Hong Kong private sector economy – posted 53.7 in February, down from 55.2 in January, its lowest reading since last November. The latest headline index reading was nevertheless above the 50.0 no-change threshold for the nineteenth month running, as both output and new order growth slowed during February.

Companies in Hong Kong recorded increased output in February, extending the current period of expansion to twenty months. However, the rate of increase eased since January to a six-month low. Panellists attributed the latest rise in output to receiving a higher level of new business. The amount of new orders placed at Hong Kong companies rose solidly during the latest survey period, although the rate of increase was the weakest since last September. This partly reflected new work from mainland China rising at the slowest pace in five months.

Despite the slower rates of output and new order growth, the amount of outstanding business increased in February. Backlogged work was accumulated at a strong pace that

remained well above the long-run series average.

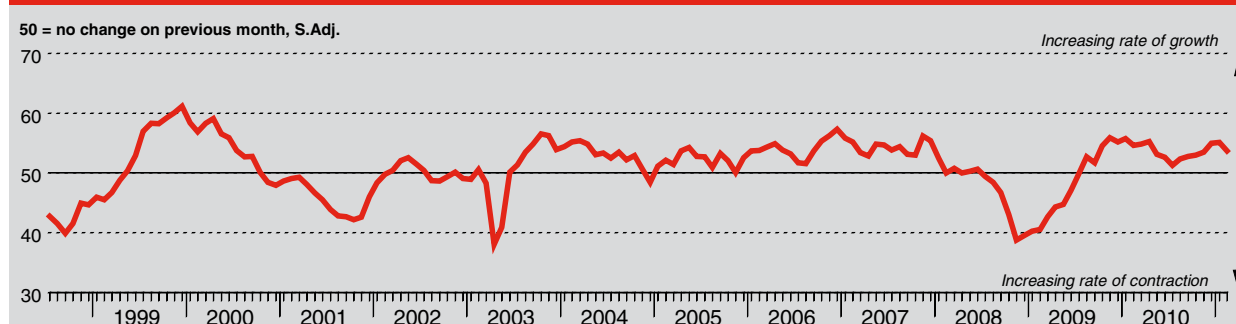
Meanwhile, the number of people employed by companies in Hong Kong increased for the second successive month in February. Moreover, the rate of job creation quickened since January to the fastest pace in ten months. Anecdotal evidence suggested that firms expanded their workforces as activity requirements rose during February.

Similarly, the amount of inputs purchased by surveyed companies rose during the latest survey period. Purchasing activity grew at a modest rate, leading to an expansion of stocks of pre-production goods.

On the supply side, the time it took for vendors to deliver inputs to firms lengthened for the seventeenth consecutive month. Hong Kong private sector firms commented that lead times increased as vendors struggled to cope with greater demand.

In addition, the average price of inputs rose markedly in February. Although the rate of input cost inflation eased since January to a four-month low, it remained historically high. Monitored companies recorded higher prices across a wide range of raw materials, such as metals and plastics, while salaries also rose. Survey respondents passed part of these higher cost burdens on to clients in February, but the rate of output price inflation remained lower than that of input costs.

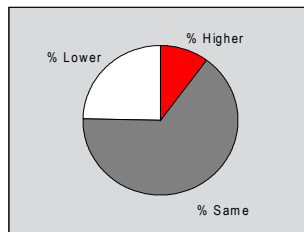
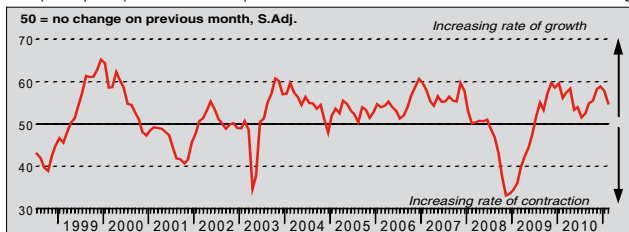
HSBC Hong Kong PMI



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

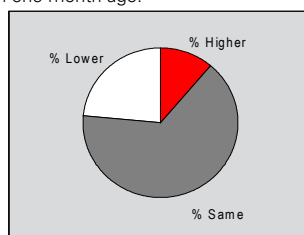
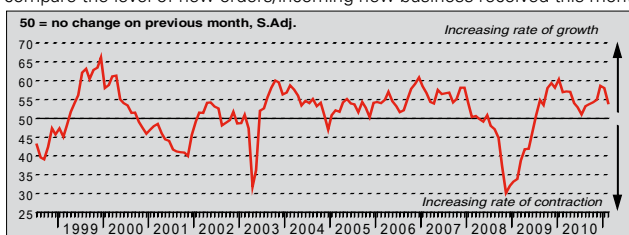
Q. Please compare your production/output this month with the situation one month ago.



Companies in Hong Kong reported a solid rise in the level of output during February, extending the sequence of activity growth to twenty months. Panellists attributed the latest rise in output to ongoing improvements within the global economy. Despite this, the rate of increase registered in February was the slowest since August 2010.

New Orders Index

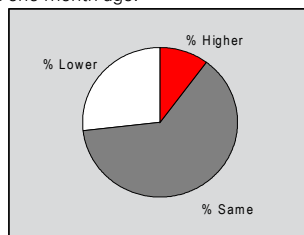
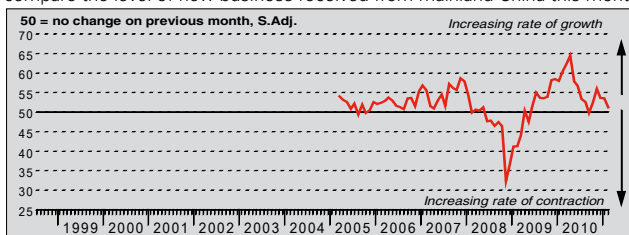
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



Hong Kong private sector firms received a greater level of new work in February. Although the latest rise was the twentieth in successive months, the rate of increase was the slowest since September 2010. This largely reflected a weaker rise in new business from mainland China during the latest survey period.

New Orders Index: Mainland China

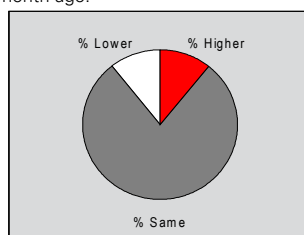
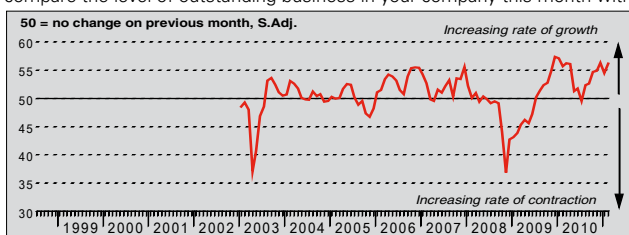
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



In February, the amount of new orders received from mainland China increased for the fifth consecutive month. However, with the latest seasonally adjusted index posting only modestly above the 50.0 no-change threshold, the rise in new work was the slowest in the current period of expansion. Anecdotal evidence suggested that higher new work intakes in February were reflective of stronger demand.

Backlogs of Work Index

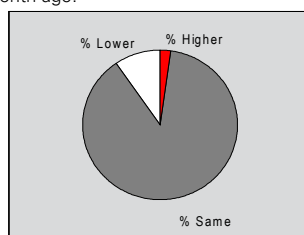
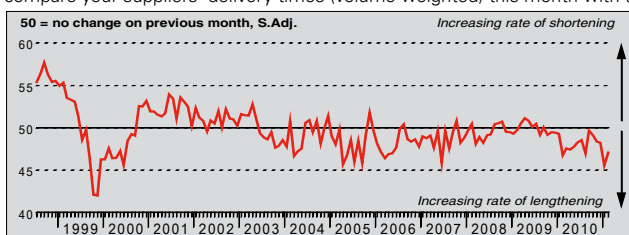
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work recorded by companies in Hong Kong rose at a marked pace in February. Moreover, the rate of increase quickened since the four-month low registered in the previous survey period. Firms that accumulated a greater level of outstanding business in February attributed this to strong new order growth.

Suppliers' Delivery Times Index

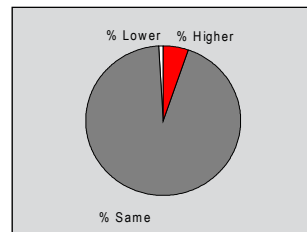
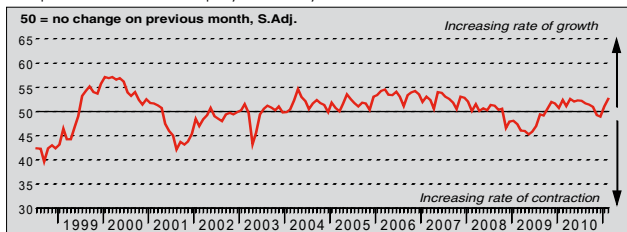
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The time it took for suppliers to deliver inputs to firms in Hong Kong lengthened further during February, continuing the trend that began in October 2009. Lead times increased at a modest pace, although the rate of deterioration was noticeably weaker than that registered in January. Nevertheless, panellists suggested that vendors had difficulty meeting greater input demand during the latest survey period.

Employment Index

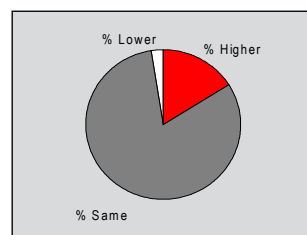
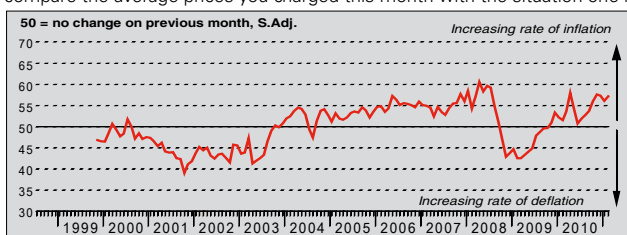
Q. Please compare the level of employment at your unit this month with the situation one month ago.



For the second consecutive month, the number of people employed within the Hong Kong private sector economy rose in February. Job creation was solid, with the rate of growth quickening since January to a ten-month high. Monitored companies enlarged their workforces as activity requirements were higher during the latest survey period.

Prices Charged Index

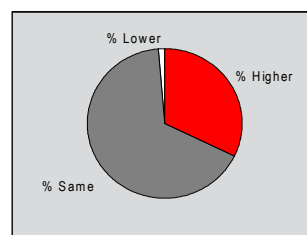
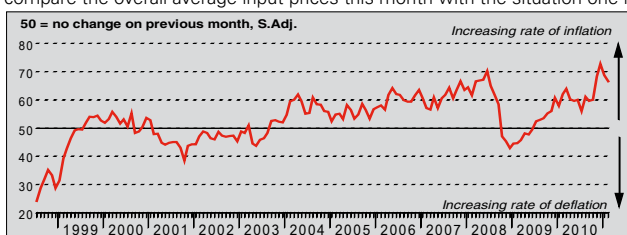
Q. Please compare the average prices you charged this month with the situation one month ago.



February data indicated that average prices charged by companies in Hong Kong rose at a marked pace. Moreover, the rate of output price inflation was faster than that registered in the previous survey period and was well above the long-run series average. Surveyed firms charged a higher price in February as the cost of raw materials increased further.

Overall Input Costs Index

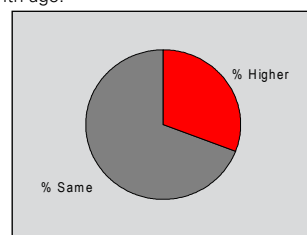
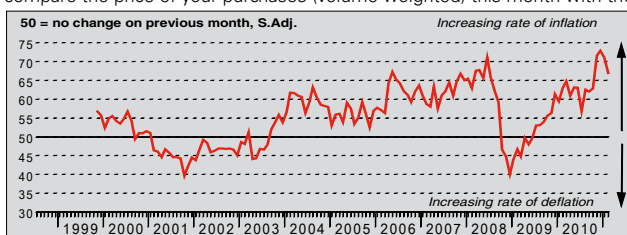
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall cost burdens increased at a marked pace in February. Over 32% of total survey respondents recorded higher input prices during the latest survey period, with panellists particularly highlighting raw materials and staff salaries as rising in cost. Nevertheless, the rate of input price inflation slowed further from December's survey high to a four-month low.

Input Costs: Purchase Prices Index

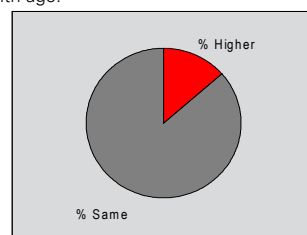
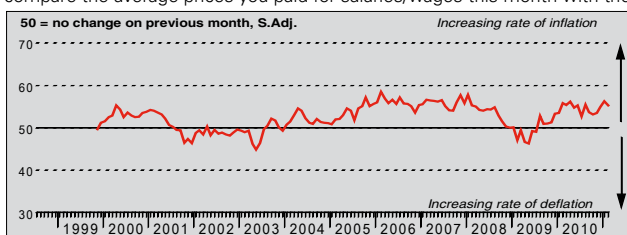
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Companies in Hong Kong recorded a strong rise in purchase prices during February. However, the rate of increase slowed since January to a four-month low. Panellists registered higher prices across a wide range of inputs, but particularly highlighted raw materials such as metal and plastics. Moreover, a number of monitored companies commented that unfavourable exchange rates added to input costs.

Input Costs: Staff Costs Index

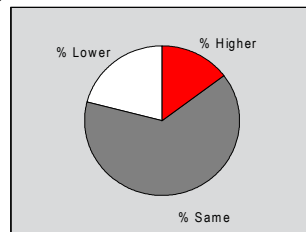
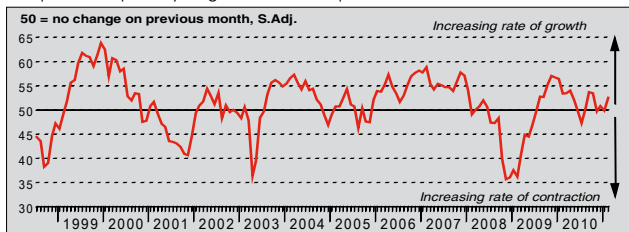
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average salaries awarded to employees within the Hong Kong private sector grew strongly in February. Wage inflation has now been recorded for nineteen consecutive months, with the rate of increase in February remaining above the long-run series average. A number of monitored companies commented that salaries rose reflective of recent good company performance.

Quantity of Purchases Index

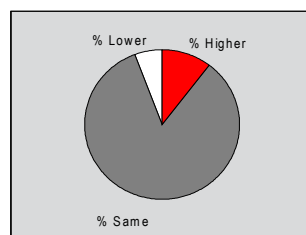
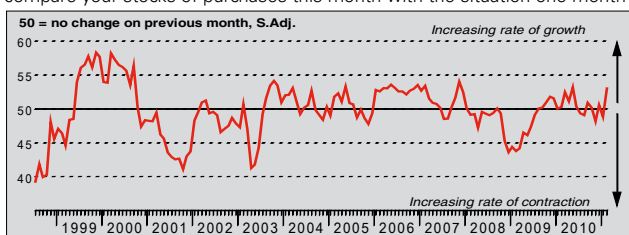
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index posted above the 50.0 no-change threshold in February. The latest reading was indicative of a modest increase in the amount of inputs purchased during the survey period. Anecdotal evidence attributed the latest rise in purchasing activity to greater output requirements.

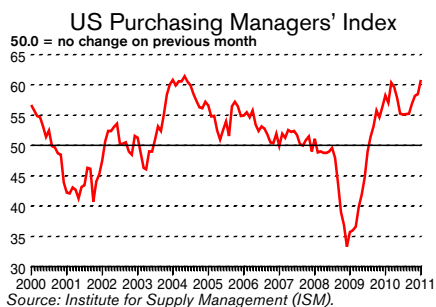
Stocks of Purchases Index

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



Companies in Hong Kong stored a higher level of inputs during February. The rate of accumulation was the fastest since May 2010, and was in contrast to the modest depletion recorded in the previous survey period. Surveyed firms commented that stocks of purchases increased in anticipation of further output growth.

International PMI



January data signalled a marked improvement in business conditions within the US manufacturing sector. This was indicated by the ISM's headline index posting 60.8 in January – the highest reading since May 2004. Overall growth has now been recorded for eighteenth successive months.

The Markit Eurozone Manufacturing PMI™ remained broadly unchanged in January. At 57.3, a slight increase from December's reading of 57.1, the latest figure was a nine-month high. This suggested business conditions within the Eurozone manufacturing sector improved at a marked rate during January.

The HSBC China Manufacturing PMI™ posted 54.5 in January, and indicated a solid improvement in operating conditions. The overall rate of growth in the Chinese manufacturing sector was marginally faster than that registered in the previous survey period, and remained above the long-run series average.

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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