

## HSBC Hong Kong PMI™

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

### Summary

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. Nonetheless, this indicated an improvement for the nineteenth month running, as both output and new order growth were maintained 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 work placed at Hong Kong firms rose solidly during the latest survey period, although the rate of increase was the weakest since last September. This partly reflected new order growth from mainland China easing to a five-month low.

Despite the slower rates of output and new order growth, 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 pre-production goods stock.

On the supply side, input delivery times lengthened for the seventeenth consecutive month. Panellists 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 to a four-month low, it remained historically high. Monitored companies recorded higher prices across a wide range of raw materials, while salaries also rose. Surveyed firms passed part of these higher cost burdens on to clients, but the rate of output price inflation remained lower than that of input costs.

### Comment

Commenting on the Hong Kong PMI survey, Donna Kwok, Greater China Economist at HSBC said:

*"Hong Kong's private sector continues to expand at a solid pace, despite softer Mainland demand. Sustained job creation and income growth likely boosted the usual pre-Chinese New Year spike in retail activity, further stoking inflationary pressures."*

### Key points

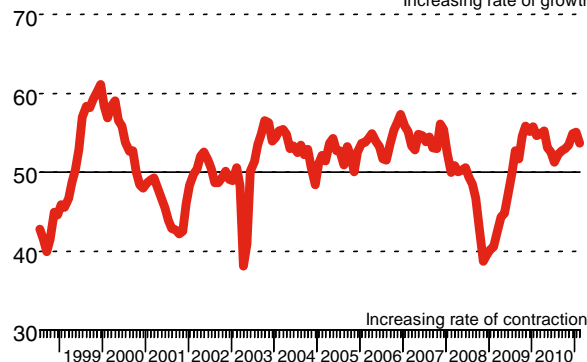
- New business increased at slowest pace since September 2010.
- Job creation recorded for the second consecutive month.
- Marked rates of both output and input price inflation.

### Historical Overview

#### HSBC Hong Kong PMI

50 = no change on previous month, S.Adj.

Increasing rate of growth



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**Notes to Editors:**

The HSBC Hong Kong PMI Report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Hong Kong 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 'Report' shows 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 a 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, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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