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HSBC Hong Kong PMI™

Output growth picked up as prices charged inflation hit thirty-three month high.

Key findings:

- New orders increased at faster rate than in February.
- Job creation remained solid.
- Input inflation second-sharpest in series history.

March's PMI data indicated an improvement in overall business conditions in the Hong Kong private sector. New orders and output both expanded at faster rates. However, input prices continued to surge while supplier performance deteriorated. Workers meanwhile benefited from higher employment and average compensation.

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 – read 54.9 in March, up from 53.7 in February, and signalled a solid improvement in the health of the Hong Kong private sector.

Driven by increases in new business wins locally and from the mainland, output growth remained solid during March. Moreover, it was the twenty-first consecutive month wherein business activity in Hong Kong expanded. A rise in new orders was a consequence of improving economic conditions in a number of important demand centres.

Reflective of a solid increase in new work received, backlogs at companies in Hong Kong increased, albeit at a marginally slower pace than witnessed in February. Total employment also reportedly rose, although again at a slower rate than registered in the previous survey. As a result, firms in Hong Kong have been increasing headcounts throughout Q1 2011.

Output prices increased at an almost unprecedented rate

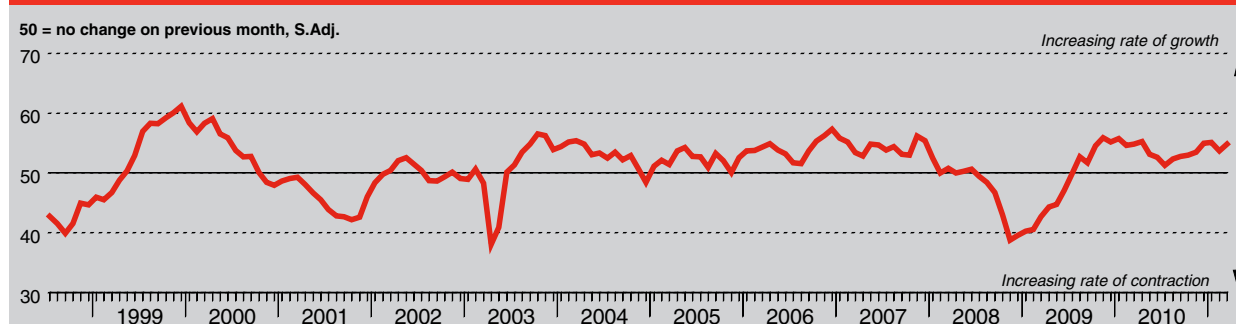
during March – only April and June 2008 saw higher rates – to extend the sequence of inflation to seventeen consecutive months. Anecdotal evidence suggested that stronger demand allowed firms to pass on a proportion of input cost increases. Indeed, total input costs grew at the second-fastest rate in series history in March.

Driving overall input price inflation was a surge in the cost of raw materials, with the seasonally adjusted Purchasing Prices Index indicating an almost survey-high rate of growth – second only to the reading for December 2010. At the same time, and partially because of rewards for good company performance, average staff costs increased.

In response to rising new orders and thus activity, firms in Hong Kong strongly increased their buying of inputs in March. The month-on-month rise was the fastest since November 2009 and the second increase in as many months. The growth in demand for inputs put a strain on the capacity of many suppliers, with average lead times lengthening at the fastest rate since November 1999. Supplier performance has been deteriorating throughout the past one-and-a-half years.

For the second consecutive month, pre-production inventories held by companies in Hong Kong increased. Moreover, the rate of accumulation was the fastest since November 2007. Respondents reported building stocks to cope with growing demand and to partially guard against the prospect of further rises in input prices.

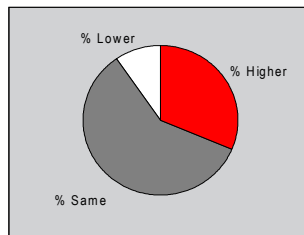
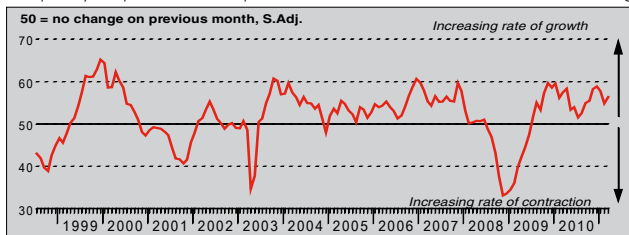
HSBC Hong Kong PMI



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

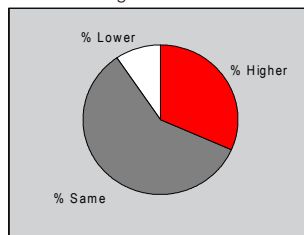
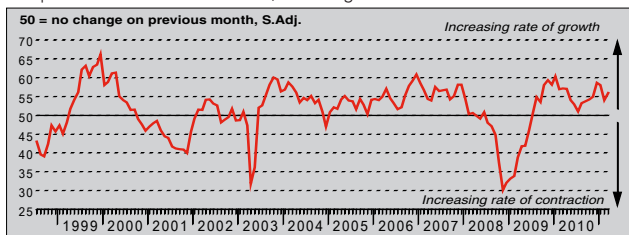
Q. Please compare your production/output this month with the situation one month ago.



The growth of output by companies in Hong Kong picked up on February's rate and signalled a solid expansion during March. Anecdotal evidence indicated that greater new business wins throughout the month had generated the rise in activity. Output in Hong Kong has now been growing for twenty-one months in succession.

New Orders Index

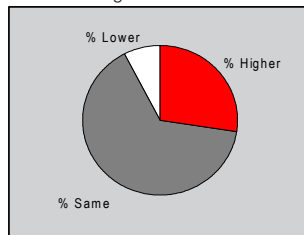
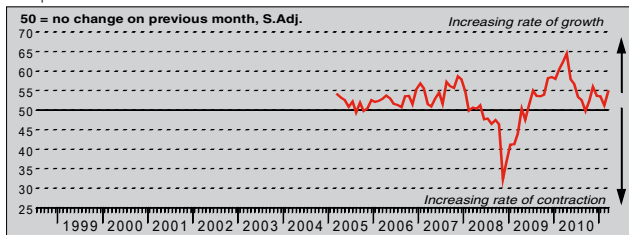
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



Following a five-month low in the seasonally adjusted New Orders Index in February, new orders received by Hong Kong companies rose solidly – and in excess of the long-run series average – during March. According to panellists, an improved economic environment had stimulated demand. New business wins have been rising month-on-month since July 2009.

New Orders Index: Mainland China

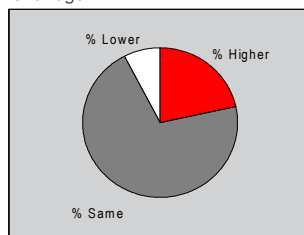
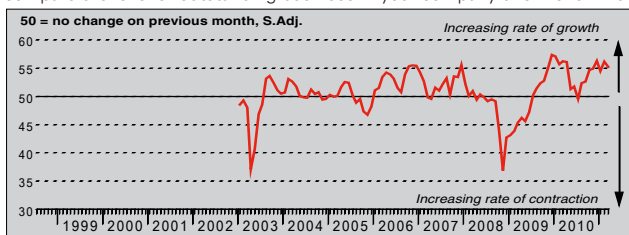
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New business wins from mainland China increased for the sixth consecutive month in March. Moreover, the index indicated that new orders from the mainland increased solidly and at the highest rate since last November. The latest anecdotal evidence attributed the growth in new work received to improved market conditions.

Backlogs of Work Index

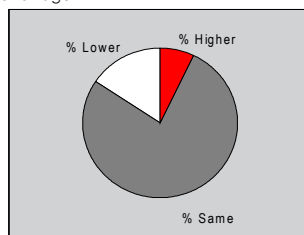
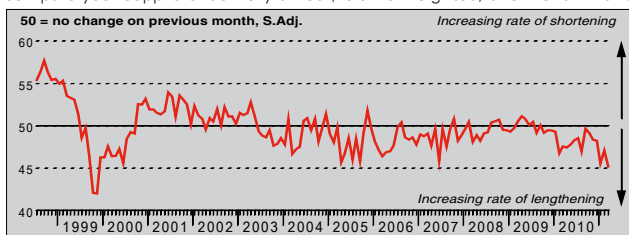
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



During March, unfinished work at Hong Kong companies increased for the eighth month in a row. The increase in backlogs was strong, albeit marginally slower than that registered for February. The primary reason given by survey respondents for the latest increase in work outstanding was an acceleration in the quantity of new work received.

Suppliers' Delivery Times Index

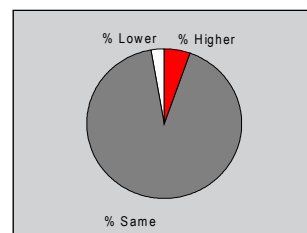
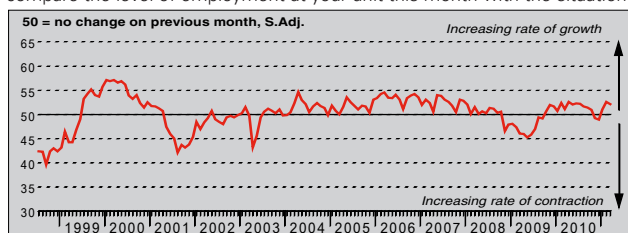
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Panellists reported a marked deterioration in suppliers' performance during March. Furthermore, it was the greatest lengthening in average lead times since November 1999. The seasonally adjusted Suppliers' Delivery Times Index has now registered below the 50.0 no-change mark for a year-and-a-half. Capacity constraints at suppliers were commonly suggested by panellists as a reason for the longer average times.

Employment Index

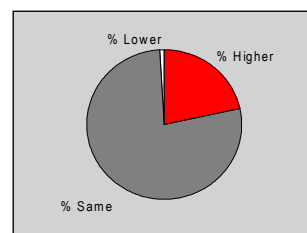
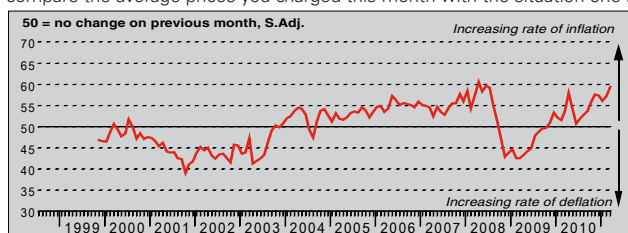
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment at companies in Hong Kong increased moderately in March, continuing the positive start made to 2011. Indeed, net job creation in Hong Kong has been recorded in each of the first three months of the year. Panel members indicated that staff intakes in the latest survey period came as a result of the pick-up in new orders received during March.

Prices Charged Index

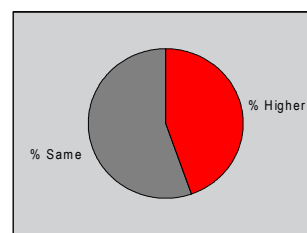
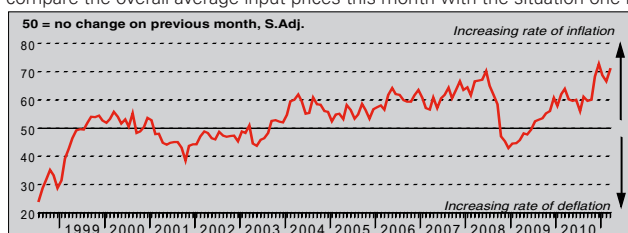
Q. Please compare the average prices you charged this month with the situation one month ago.



Prices charged inflation accelerated to a thirty-three month high in March. Output prices at Hong Kong firms rose sharply on average, and have indeed been increasing continuously since November 2009. According to the latest anecdotal evidence, companies increased tariffs in part to counter the rising cost of inputs.

Overall Input Costs Index

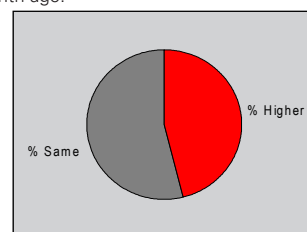
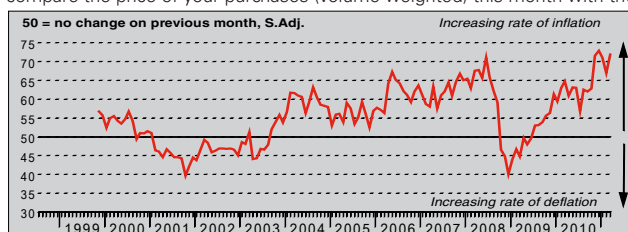
Q. Please compare the overall average input prices this month with the situation one month ago.



Companies in Hong Kong faced the second-fastest increase of overall input costs in the series history during March. Reported total input cost inflation picked up strongly from February and extended the period of continual input price rises to twenty-one months. A combination of rising raw material costs and higher wages generated March's near-record cost inflation.

Input Costs: Purchase Prices Index

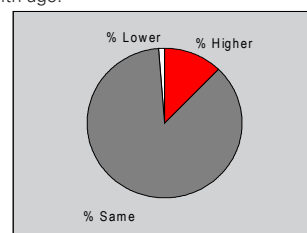
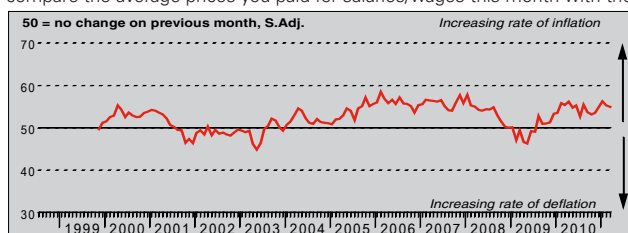
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Average purchase prices rose sharply during March, and at a rate only marginally slower than the series-high registered for last December. Moreover, 46% of surveyed companies declared facing higher prices compared to February. Panellists often cited the rising price of raw materials, caused in part by unfavourable exchange rate movements, as the key reason behind the increase.

Input Costs: Staff Costs Index

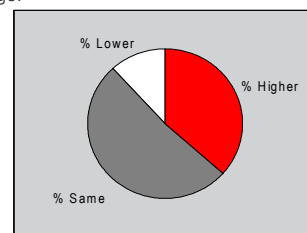
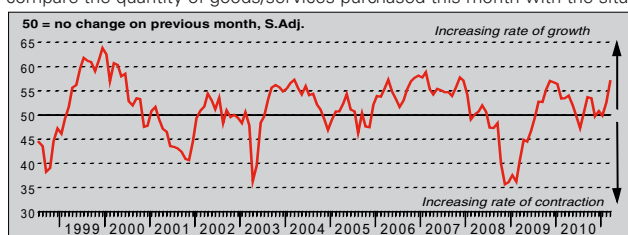
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



The average cost of staff to companies in Hong Kong increased solidly in March. Although below the rate of growth witnessed over the first two months of 2011, average employee remuneration grew at a rate above the long-run series average. Anecdotal evidence linked the increase in staff costs to higher reward for greater company performance.

Quantity of Purchases Index

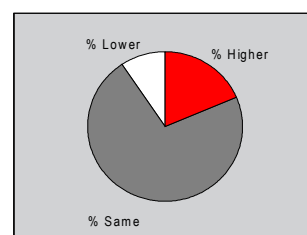
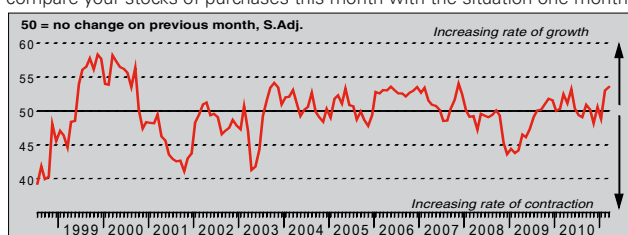
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



Input buying increased at the fastest rate since November 2009 during March. The increase in the quantity of purchases was strong, and the second month-on-month increase in a row. Surveyed companies sought to purchase more inputs in order to cope with the expansion of new orders and thus activity.

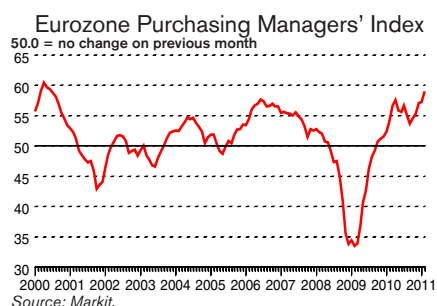
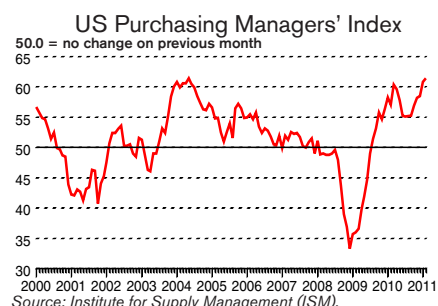
Stocks of Purchases Index

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



Pre-production inventories held by companies in Hong Kong grew for a second consecutive month in March. Moreover, it was the highest increase in stocks of purchases since November 2007. Many respondents accumulated stocks due to a pick-up in demand that led to increased new orders and output. Others reported building stocks to partially protect against potential future price rises.

International PMI



The US Purchasing Managers' Index increased for the seventh successive in February to reach 61.4, up from 60.8 in January. This was the highest reading since May 2004 and it indicated a marked improvement in overall business conditions within the US manufacturing sector.

At 59.0, up from 57.3 in January, the Markit Eurozone Manufacturing PMI™ signalled a strong improvement in economic conditions in February. While increasing for the fifth consecutive month, the index also posted above the 50.0 no-change mark for the seventeenth month in succession.

The HSBC China Manufacturing PMI™ read 51.7 in February, down from 54.5 in January, and indicative of only a modest improvement in business conditions with the Chinese manufacturing sector. Nevertheless, the index suggested progression in the sector for the seventh month 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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