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HSBC Hong Kong PMI®

Rise in new business led to a robust expansion of activity.

Key findings:

- Increased rate of new order growth underpinned by a marked pick-up in new business from mainland China.
- Job creation maintained despite new minimum wage legislation.
- Inflation of staff costs and output prices both at record highs.

Growth of output at Hong Kong private sector firms accelerated in May, following a pick-up in the level of new business received. Job creation was maintained despite the introduction of minimum wage legislation – which also led to a record rate of staff cost inflation. Delivery times improved following severe supply chain disruptions in both March and April, but input costs continued to soar.

The headline HSBC Hong Kong *Purchasing Managers' Index™* (PMI®) – a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy – posted 52.2 in May, down from 52.9 in April, and signalled the smallest overall monthly improvement in operating conditions for Hong Kong companies since July 2010.

For the twenty-third consecutive month in May, activity by Hong Kong private sector companies expanded. The rise in output was robust, and led by a slight acceleration in growth of new business received. In particular, panellists won much more new business from mainland China compared with one month previously, citing improving economic conditions there as the key explanation.

Resulting from a rise in new orders, backlogs of work at companies in Hong Kong accumulated at a solid pace, and for the tenth month in a row. A number of firms also responded to greater sales by increasing staff numbers, although the rate of job creation in Hong Kong slowed in part as a result of

the newly-introduced minimum wage law.

Output price inflation accelerated to a series high in May. Anecdotal evidence attributed the strong monthly increase in prices charged to sharply rising input costs. Indeed, overall input cost inflation was the second-highest in the survey's history – only slower than the reading from last December.

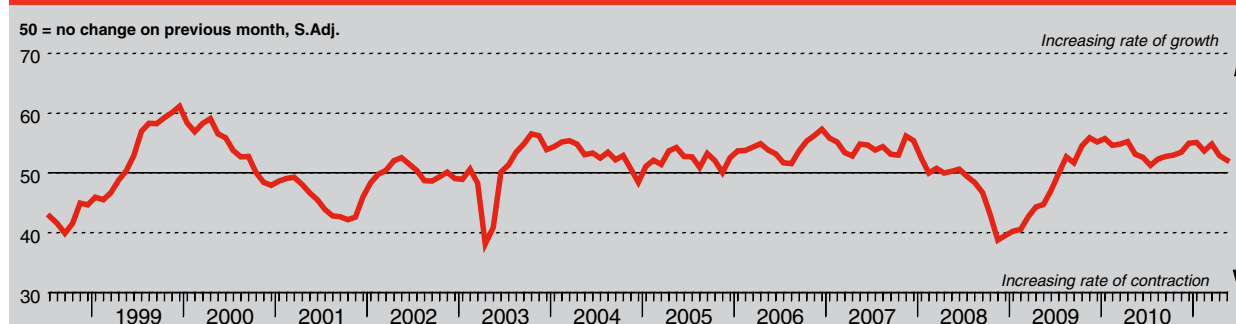
Both marked purchase price inflation and strong wage growth contributed to the rapid increase in overall costs in May. According to respondents, the rising price of raw and man-made materials such as paper and plastics underpinned purchase price inflation, which remained broadly similar to the rates seen in both March and April.

Meanwhile, average wages paid by companies in Hong Kong rose at an unprecedented pace in May, following the introduction of minimum wage legislation.

Reflecting pick-ups in growth of both new orders and activity in May, input buying by private sector companies in Hong Kong increased at an accelerated rate. Nonetheless, the rise in purchasing activity was only moderate overall, and insufficient to prevent a faster decrease in stocks of purchases.

Despite a rise in input buying, supplier performance improved in May. Anecdotal evidence suggested that this was a result of supply chains recovering following severe disruption in the previous two months.

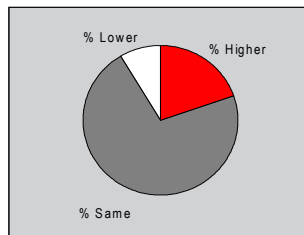
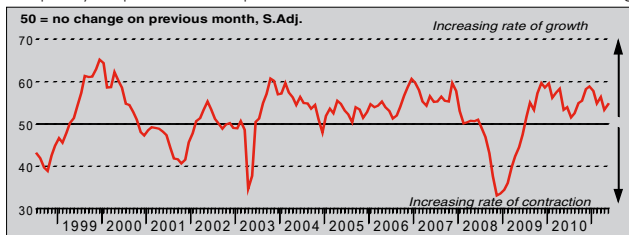
HSBC Hong Kong *Purchasing Managers's Index™* PMI®



The HSBC Hong Kong *Purchasing Managers' Index* (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. *Purchasing Managers' Index™* and *PMI®* are trade marks of Markit Economis Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

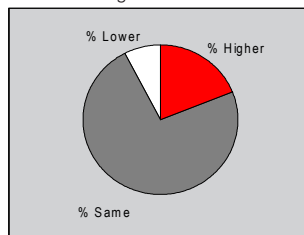
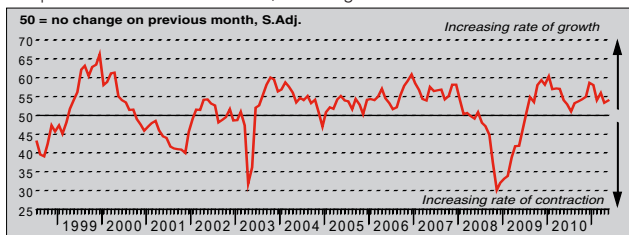
Q. Please compare your production/output this month with the situation one month ago.



In May, output by companies in the Hong Kong private sector expanded at a robust pace. Furthermore, growth of activity accelerated from that registered in the previous survey period. Anecdotal evidence attributed the rise in output to an increased level of new orders compared with one month previously. Activity at Hong Kong firms has been increasing since July 2009.

New Orders Index

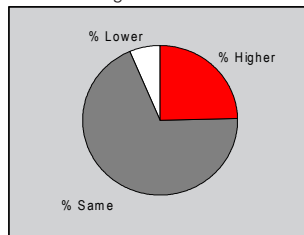
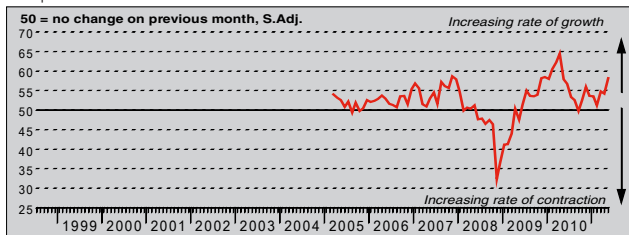
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



New orders received by firms in Hong Kong increased in May for the twenty-third month in succession. The seasonally adjusted New Orders Index registered well in excess of the 50.0 no-change mark, and showed that new business expanded at a solid pace. According to survey respondents, the rise in new incoming work was a consequence of strengthening demand for Hong Kong goods and services.

New Orders Index: Mainland China

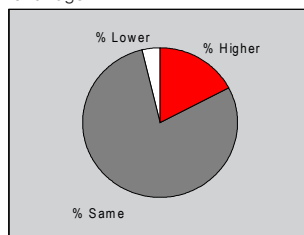
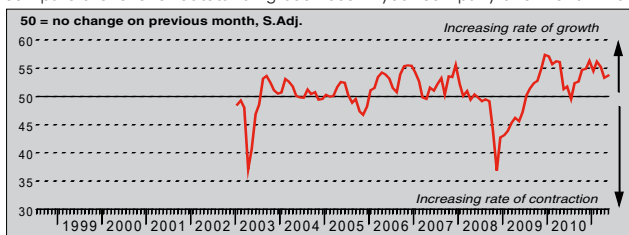
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders received from mainland China increased at a marked rate in May. Moreover, growth of new business from the mainland was the highest since April 2010. Over 24% of panel members declared receiving a higher level business from mainland customers, citing an improving economic climate as the primary explanation.

Backlogs of Work Index

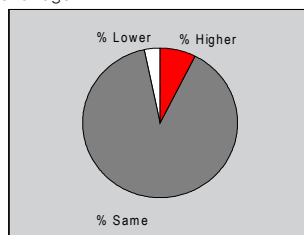
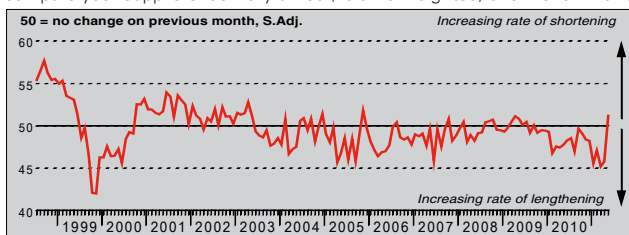
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work accumulated in May at a broadly similar pace to that indicated in April. The latest rise in outstanding work was solid, and extended the current sequence of growth to ten months. The latest anecdotal evidence indicated that, despite an increase in activity in May, a higher level of new business was sufficient to lead to greater volumes of unfinished work at Hong Kong firms.

Suppliers' Delivery Times Index

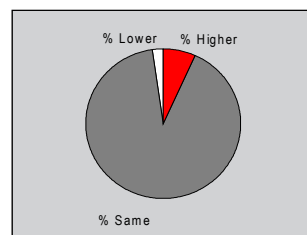
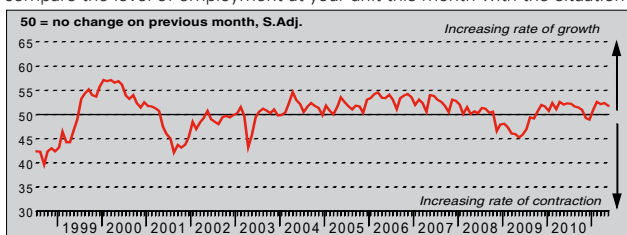
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Supplier performance improved in May for the first time since September 2009. The decrease in average vendors' lead times was only modest, but nevertheless the largest since November 2005. Anecdotal evidence suggested that suppliers' delivery times improved following severe disruptions to supply-chains in the previous two months.

Employment Index

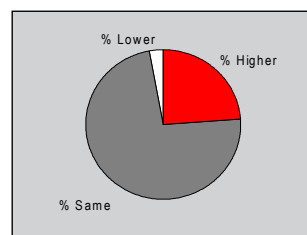
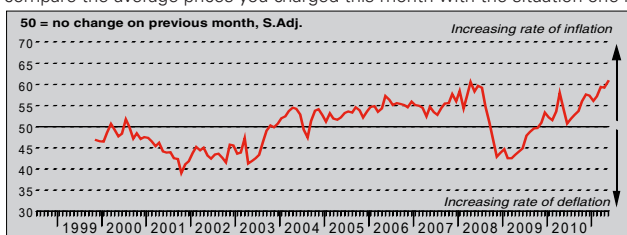
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment at Hong Kong private sector companies increased in May for the fifth month in a row. Although the rate of job creation was the lowest seen for four months, the rise in staffing numbers was still moderate. A number of survey respondents declared hiring extra staff as a consequence of headcounts being insufficient to cope with an increase in new orders received.

Prices Charged Index

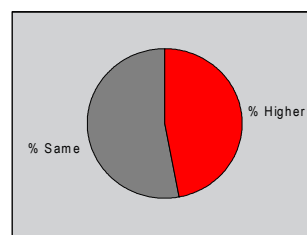
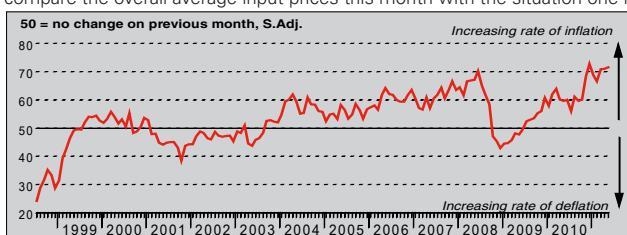
Q. Please compare the average prices you charged this month with the situation one month ago.



Output prices of firms in Hong Kong increased at a marked rate in May. Moreover, the seasonally adjusted Prices Charged Index climbed to its highest level in the survey history. The latest anecdotal evidence suggested that a combination of strong demand and rising input costs led to the strong month-on-month increase in prices charged.

Overall Input Costs Index

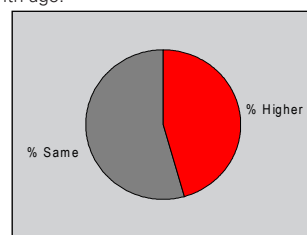
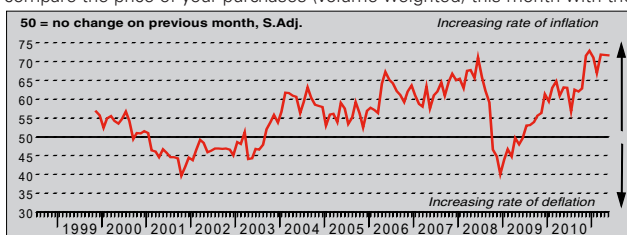
Q. Please compare the overall average input prices this month with the situation one month ago.



In May, overall input costs to Hong Kong private sector companies increased at a sharp rate. Input cost inflation accelerated for the third consecutive survey period and was the second-strongest in the series history – the highest was last December. Underpinning the rise in overall costs were purchasing prices and labour costs.

Input Costs: Purchase Prices Index

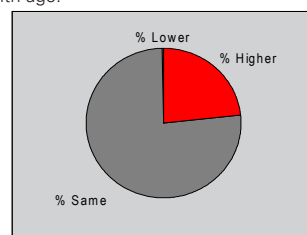
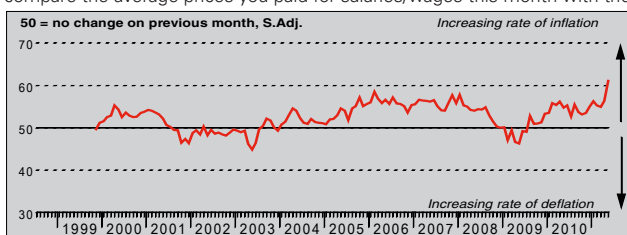
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Purchase price inflation remained broadly unchanged in May from that registered in both March and April. The average price of inputs continued to increase at a marked rate, and well in excess of the long-run series average. A number of panel members attributed the rise in purchasing costs to higher prices for raw materials. Others also mentioned man-made materials such as paper and plastics.

Input Costs: Staff Costs Index

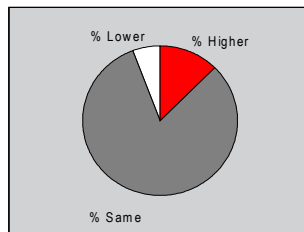
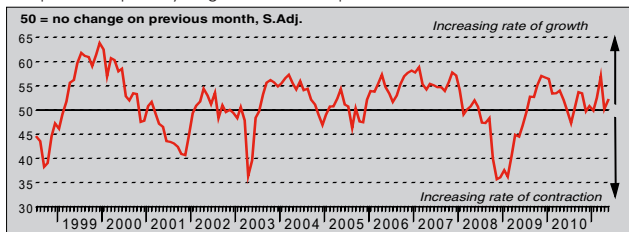
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average wages paid to employees in the Hong Kong private sector increased at a strong rate in May. Moreover, with over 23% panellists paying higher average wages than one month previously, staff cost inflation accelerated to a series high. Anecdotal evidence indicated that the historically high rate of wage inflation was in part the result of the introduction of minimum wage legislation.

Quantity of Purchases Index

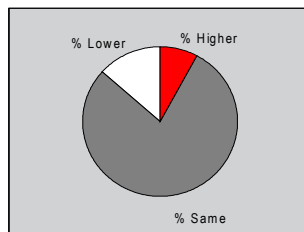
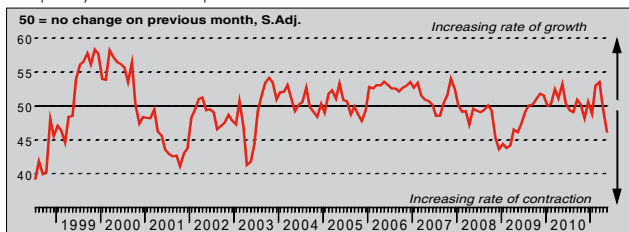
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



Purchasing activity by companies in Hong Kong increased for the fourth consecutive month in May. Growth of input buying was moderate, and up on that recorded in the previous survey period. According to panellists, the rise in buying activity was a consequence of an increase in the number of new business wins made during May.

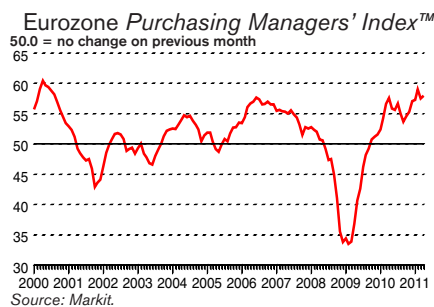
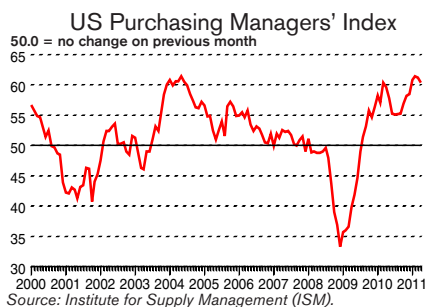
Stocks of Purchases Index

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



In May, stocks of inputs at Hong Kong private sector firms declined at the fastest rate for two years. The reduction in stocks of purchased items was solid, and the second in as many months. The latest anecdotal evidence showed that a robust rise in output more than offset an increase in buying activity.

International PMI



In April, the ISM US Purchasing Managers' Index showed a marked improvement in overall business conditions within the US manufacturing sector. Although a four-month low, at 60.4 the index registered above the 50.0 no-change mark for the twenty-first month in succession.

The Markit Eurozone Manufacturing PMI[®] registered 58.0 in April, up from 57.5 in March, and indicated a strong improvement in operating conditions for Eurozone goods producers. This was the nineteenth consecutive month-on-month improvement in the health of Eurozone manufacturing sector.

At 51.8 in April, unchanged from the corresponding figure in March, the HSBC China Manufacturing PMI[®] showed only a modest improvement in business conditions within the Chinese manufacturing sector. Nevertheless, the latest posting extended the current period of improvement that began in August 2010.

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index* 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 *Purchasing Managers' Index*[™] (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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