

HSBC Hong Kong PMI®

Rise in new business led to a robust expansion of activity

Summary

Growth of output at Hong Kong 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®) 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 companies expanded. The rise in output was robust, and led by a slight acceleration in growth of new business. 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 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.

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.

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

Reflecting a pick-up in growth of activity in May, input buying by 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 pre-production inventories.

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.

Comment

Commenting on the Hong Kong PMI® survey, Mark McCombe, Chief Executive of HSBC in Hong Kong, said:

"Demand in Hong Kong remains robust, supported by a resurgence of Mainland orders. This rebound has fuelled business growth and prompted employers to increase headcounts even as the impact of the new minimum wage legislation kicks in. On the supply side, disruptions triggered by recent events in Japan are starting to show tentative signs of easing. However, as inflationary pressures remain high, the overall picture indicates that Hong Kong is more at risk of overheating rather than under-heating."

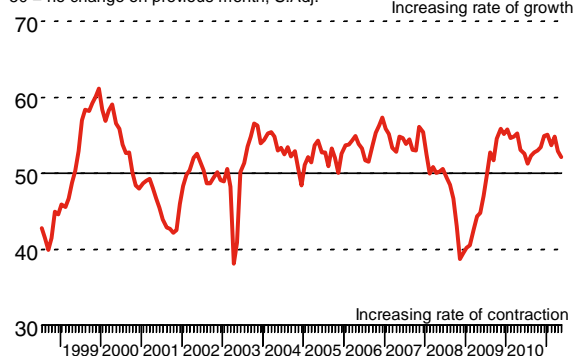
Key points

- 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.

Historical Overview

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



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Notes to Editors:

The HSBC Hong Kong *PMI* 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 *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, 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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