

Embargoed until: 10:30 (HONG KONG), 6 July 2011

HSBC Hong Kong PMI®

PMI close to two-year low, as new orders decreased.

Key findings:

- Fall in new orders underpinned by weaker domestic demand.
- Price pressures remained elevated, despite easing since May.
- Job creation was solid.

For the first time in two years, new orders received by companies in Hong Kong decreased. Nevertheless, output continued to expand and firms increased headcounts. Price pressures, meanwhile, remained strong, underpinned by increases in both purchase prices and the cost of labour. Supply chain pressures eased for the second month running, albeit only marginally.

Falling to its lowest mark in just under two years, 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 – registered 50.3 in June, down from 52.2 in May. The latest figure showed only a marginal improvement in overall operating conditions for companies in Hong Kong.

The dip in the headline index was led by a decrease in new orders received in June. The month-on-month fall in new orders was only marginal, but the first since June 2009. Anecdotal evidence suggested that the decline in new business primarily reflected weaker domestic demand, while growth of new orders from the mainland eased to a four-month low.

Nevertheless, firms continued to expand output, reducing backlogs of work for the first time since last July. Growth of output was, however, the weakest in the current two-year period of expansion. Meanwhile, the rate of job creation in

Hong Kong remained solid and broadly unchanged since May, taking the current period of rising employment to six months.

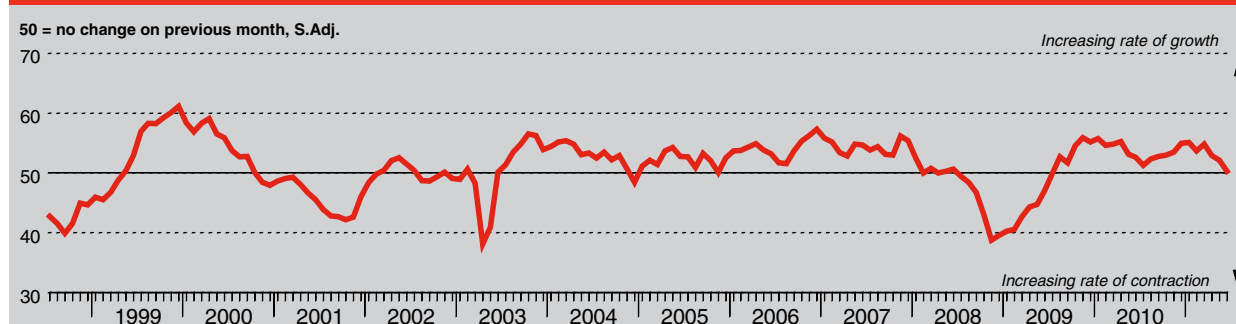
Companies in Hong Kong continued to raise their prices charged at a marked rate in June. According to anecdotal evidence, firms were passing on a proportion of higher costs to their customers.

Overall cost inflation was sharp in June, despite easing since the previous survey period. Driving increased costs were rising prices of raw materials and higher average wages – the latter being the continuation of the effects of the newly introduced minimum wage legislation. Nonetheless, both purchase price and staffing cost inflation weakened since May.

Reacting to a fall in new orders in June, companies in Hong Kong reduced their purchasing activity compared with the previous month. The month-on-month decline in input buying was robust, and the strongest since May 2009. With demand for inputs lower in June, vendors' performance improved for a second month in succession. However, the decrease in average suppliers' delivery times was only marginal.

Stocks of purchases at private sector companies in Hong Kong decreased in June for a third month running, albeit only marginally. The decline reflected both a pick-up in output and a fall in purchasing activity.

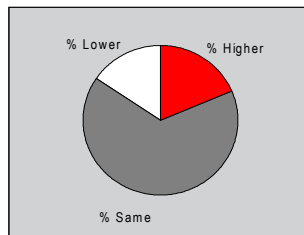
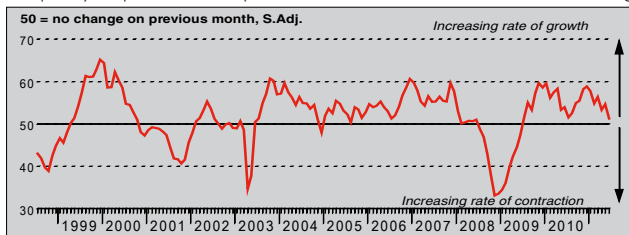
HSBC Hong Kong *Purchasing Managers' Index*™ PMI®



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

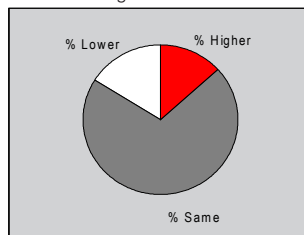
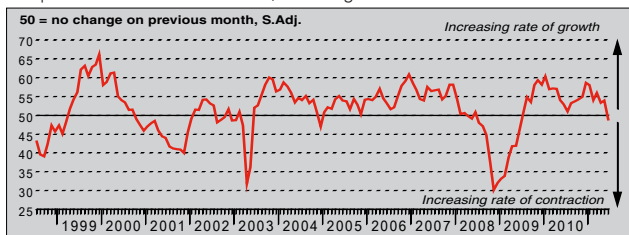
Q. Please compare your production/output this month with the situation one month ago.



Output by private sector companies in Hong Kong increased only modestly in June. Furthermore, the month-on-month increase in activity was the slowest in the current two-year period of expansion. Although companies continued to work on backlogs, anecdotal evidence signalled that weaker growth of output was the result of a fall in the level of new orders received compared with the previous month.

New Orders Index

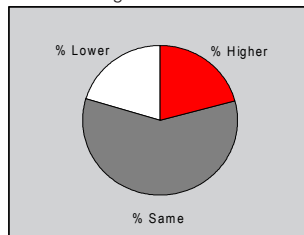
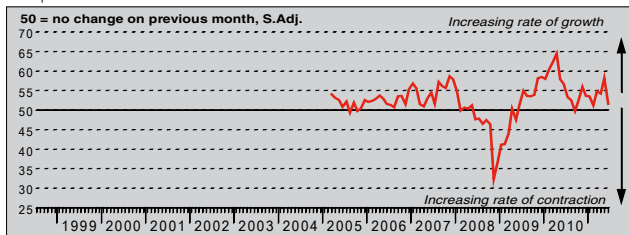
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



For the first time since June 2009, the seasonally adjusted New Orders Index dipped below the 50.0 no-change mark, to indicate a reduction in new orders received. According to the latest anecdotal evidence, lower domestic demand was the primary explanation for falling levels of new business. The month-on-month decline in new orders was, however, only marginal.

New Orders Index: Mainland China

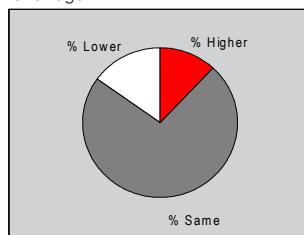
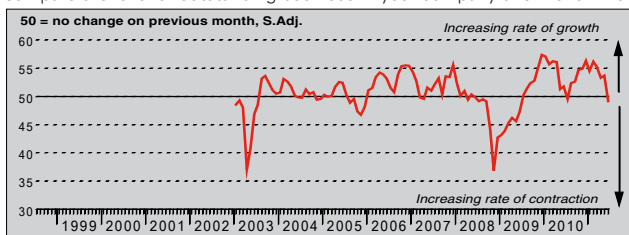
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders received from mainland China increased in June for the ninth month in succession. According to panel members, an increase in mainland demand had led to the rise in new business wins. However, easing sharply since May, growth of new orders from mainland China was only modest, and the slowest for four months.

Backlogs of Work Index

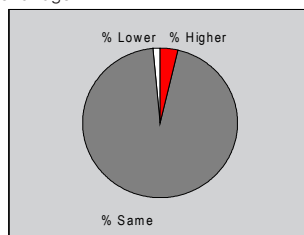
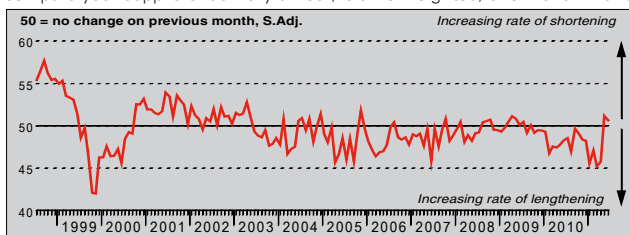
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



In June, backlogs of work at private sector companies in Hong Kong decreased for the first time since July 2010. According to the latest anecdotal evidence, a fall in the level of new orders received enabled firms to reduce their volumes of outstanding business on average. The rate of contraction in backlogs of works was, nonetheless, only marginal.

Suppliers' Delivery Times Index

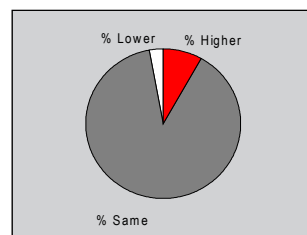
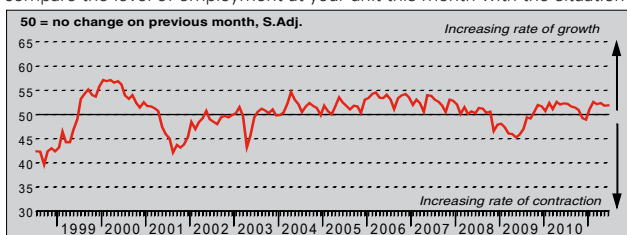
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



In June, panel members reported an improvement in vendor performance for a second month in a row. Quicker supplier lead times primarily reflected a drop in purchasing activity, according to the latest anecdotal evidence. Nonetheless, the rate of improvement in vendor performance weakened since May, and was only marginal.

Employment Index

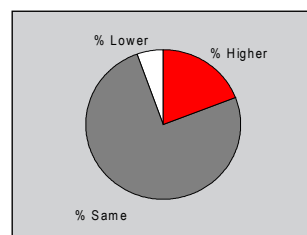
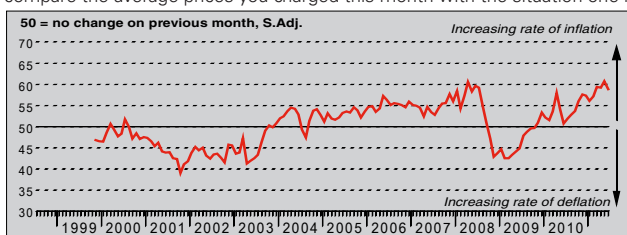
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Private sector companies in Hong Kong increased employment for a sixth consecutive month in June. Moreover, little-changed since May, the rate of job creation was solid. Despite falling levels of new orders, a number of companies continued to hire staff in order to reduce outstanding business accumulated prior to the latest survey period.

Prices Charged Index

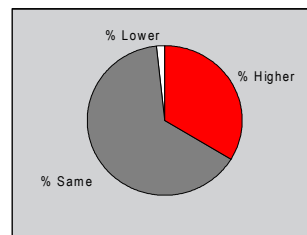
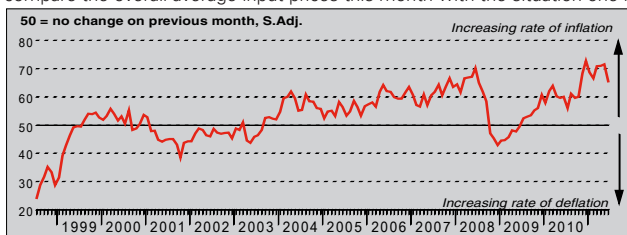
Q. Please compare the average prices you charged this month with the situation one month ago.



Companies in Hong Kong increased their prices charged in June. Furthermore, easing only slightly since May, output price inflation remained marked and well in excess of the long-run series average. According to panel members, prices charged were raised as a consequence of higher overall input costs compared with the previous month. Output prices in Hong Kong have been increasing since November 2009.

Overall Input Costs Index

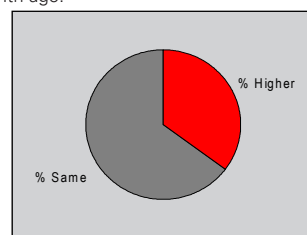
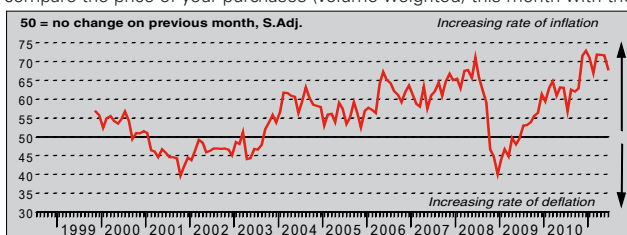
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall cost inflation eased in June for the first time since February. However, with almost 34% of survey respondents paying higher overall average input prices compared with the previous month, the rate of cost inflation remained sharp. Anecdotal evidence attributed the latest rise in average costs to a combination of both higher purchase prices and more expensive labour.

Input Costs: Purchase Prices Index

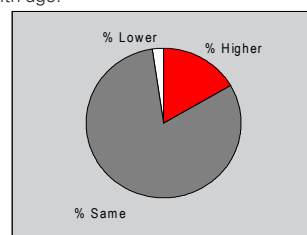
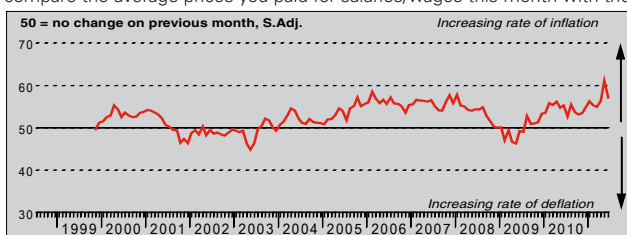
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



Despite dipping since May, the seasonally adjusted Purchases Prices Index registered well above the 50.0 no-change mark in June, signalling a sharp increase in the average price of inputs. According to anecdotal evidence, higher prices for a number of raw materials had underpinned the latest rise in purchase prices. Average materials prices have now been increasing for two years.

Input Costs: Staff Costs Index

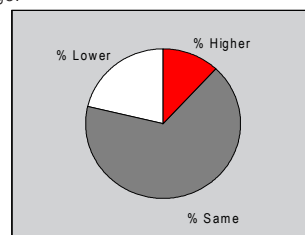
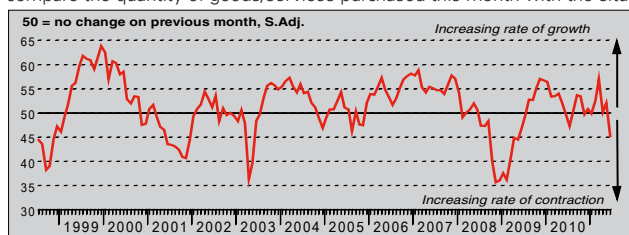
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



With the impact of the newly-introduced minimum wage legislation continuing to filter through Hong Kong's private sector economy, average wages increased further in June. Despite easing since May, growth of wages remained marked. Hong Kong's labour force has benefited from increasing average salaries since August 2009.

Quantity of Purchases Index

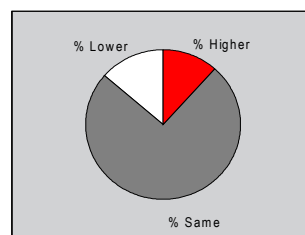
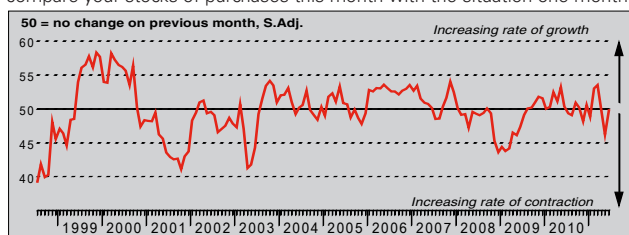
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



The purchasing activity of companies in Hong Kong decreased in June for the first time since January. Moreover, the month-on-month reduction in input buying was robust, and the strongest since May 2009. According to panel members, the primary driver of lower purchasing activity was a fall in the level of new orders received compared with the previous month.

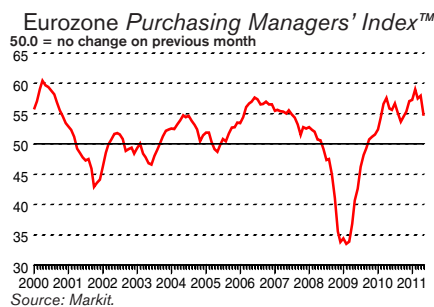
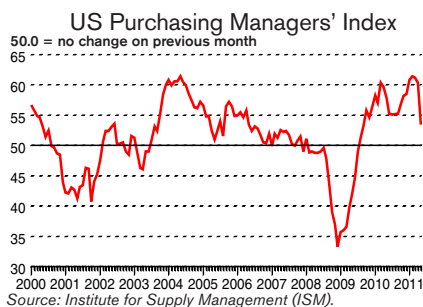
Stocks of Purchases Index

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



For the third month running in June, stock of purchases at companies in Hong Kong decreased. However, the reduction was only marginal, and the slowest in the current three-month sequence. Falling post-production inventories was a consequence of a combination of both higher production and lower input buying, according to the latest anecdotal evidence.

International PMI



The seasonally adjusted ISM US Purchasing Managers' Index fell in May for the third month in succession. Posting 53.5 – its lowest mark since September 2009, the headline figure showed only a moderate improvement in overall operating conditions for US goods producers.

At 54.6 in May, down from 58.0 in April, the seasonally adjusted Markit Eurozone Manufacturing PMI[®] signalled the weakest month-on-month improvement in the health of the Eurozone manufacturing sector since October 2010.

In May, the seasonally adjusted HSBC China Manufacturing PMI[®] dipped to its lowest level since July 2010. Registering 51.6, down from 51.8 in both March and April, the headline index indicated only a modest improvement in overall business conditions within the Chinese manufacturing sector.

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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