HSBC *Purchase Managers' Index*™ Press Release

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compiled by markit

HSBC Hong Kong PMI®

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

Summary

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®)* 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. 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 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.

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.

Comment

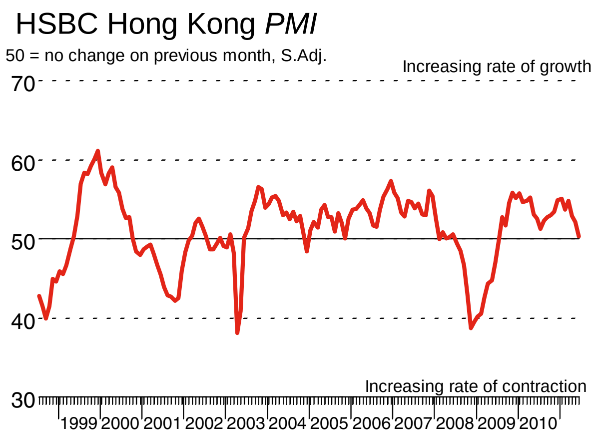
Commenting on the Hong Kong *PMI®* survey, Mark McCombe, Chief Executive of HSBC in Hong Kong, said:

"Consistent with other regional markets, Hong Kong is navigating through near-term turbulence in the global trade cycle. Evidence is also emerging that escalating inflationary pressures may be starting to cool household purchasing activities, although we do see positive employment and wage growth providing a counterbalance."

Key points

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

Historical Overview



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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.

HSBC:

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About PMIs:

Purchasing Managers' Index™ (*PMI®*) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.