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## HSBC Hong Kong PMI®

PMI increases as new orders show resumption in growth

### Key findings:

- Further overall improvement in operating conditions
- Output and employment continue to grow
- Input price inflation accelerates markedly to series high

Operating conditions in the private sector of the Hong Kong economy improved only slightly during July, as demand generally remained subdued and underlying cost pressures continued to grow. Output expanded at a moderate pace while new orders returned to growth after a contraction during June. Stocks of purchases rose for the first time in four months, but the quantity of purchases fell for the second month running.

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 51.4 in July, up from 50.3 in June. The latest figure signalled a small improvement in overall operating conditions for companies in Hong Kong that was stronger than in June.

The rise in the headline index was led by an increase in new orders received in July. This marked a return to growth following the first month-on-month fall in two years during June. Anecdotal evidence suggested that the rise in new business was primarily attributable to a slight strengthening in domestic demand.

Chinese demand for Hong Kong's goods and services also showed signs of improvement during July. New orders from the mainland grew solidly, increasing at a faster rate than the long-run series average.

Despite the rise in new orders, outstanding business fell for the second consecutive month in July. While the contraction was again only minor, it was a considerable change from the increases in backlogs of work reported earlier in the year.

Private firms in the Hong Kong economy expanded output again during July. However, the increase in business activity was moderate and considerably slower than the growth reported earlier in the year.

Companies operating in Hong Kong continued to face considerable cost pressures during July. Salary cost inflation grew again, due in part to the impact of the recently-introduced minimum wage legislation. Employment rose for the seventh consecutive month, to address previous capacity shortfalls and to meet new order volumes.

The greatest cost inflation was recorded in purchasing prices. The average price of inputs rose at the fastest rate in the 12-year series history due to high prices for a number of raw materials and currency depreciation. However, the rise in overall input costs was not fully passed on to customers. The rate of increase in prices charged by Hong Kong businesses was strong, but the slowest in the past five months.

Purchasing activity by businesses fell during July. In spite of this, signs of strengthening demand encouraged companies to hold more stocks of purchases. However, the rate of increase in pre-production inventories was only marginal.

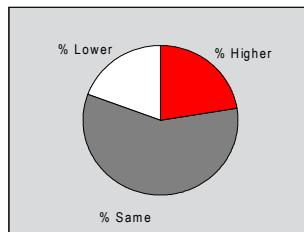
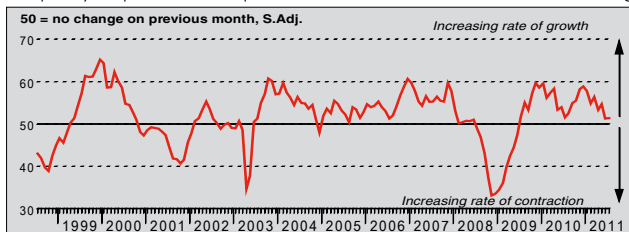
HSBC Hong Kong *Purchasing Managers's Index*™ PMI®



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**

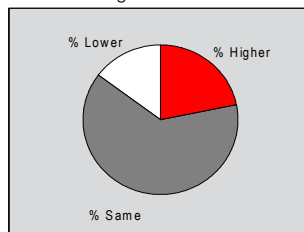
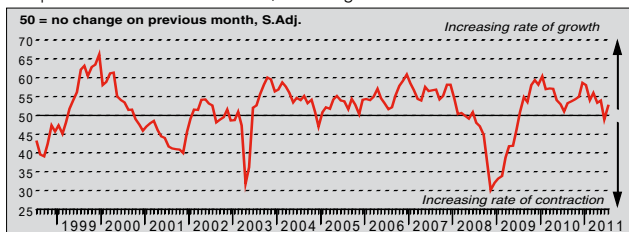
Q. Please compare your production/output this month with the situation one month ago.



Output by private sector companies in Hong Kong increased only modestly again in July, after weak growth in June. The latest increase in activity was the second-slowest in the current 25-month period of expansion, and was down considerably from the growth reported earlier in the year. However, many survey respondents reported improved business conditions as new orders rose overall.

**New Orders Index**

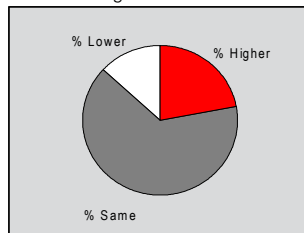
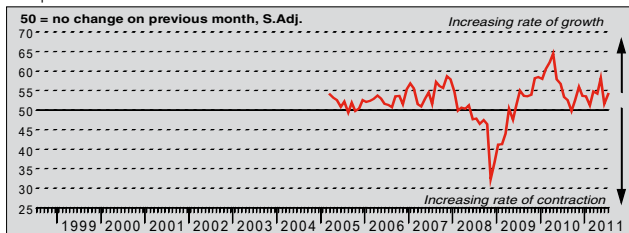
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



The seasonally adjusted New Orders Index rose above the 50.0 no-change mark in July, indicating an increase in new business received. While the expansion in new orders during July was moderate, it marked a return to growth following the first contraction for two years in June. According to the latest anecdotal evidence, increased demand was the primary explanation for greater levels of new business.

**New Orders Index: Mainland China**

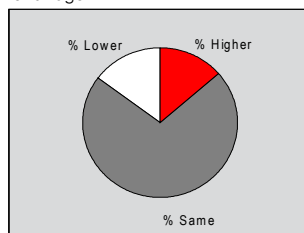
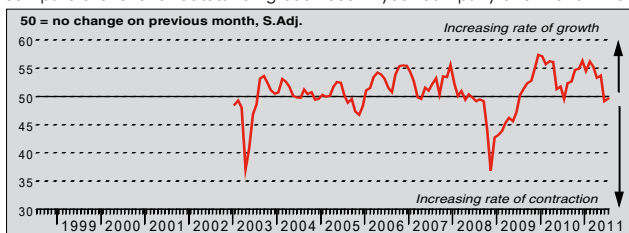
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders received from mainland China increased for the tenth month in succession in July. The rate of growth in new orders from mainland China was modest, but was up notably from June (which was the slowest expansion in orders in four months). It was also above the average for the current sequence of expansion. Panel members attributed the latest increase to rising demand.

**Backlogs of Work Index**

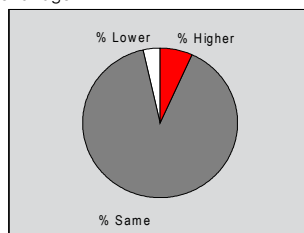
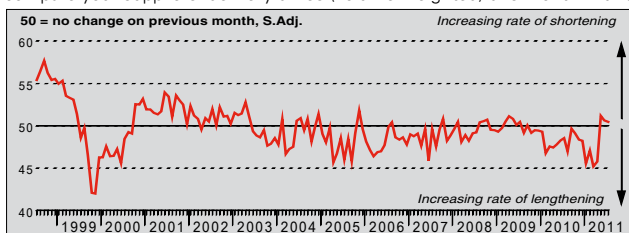
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at private sector companies in Hong Kong decreased for the second month in succession during July. Similar to June, the rate of contraction in outstanding work was only minor, as the majority of respondents reported the same level of backlogs as the previous month. According to the latest anecdotal evidence, fragile new order growth was the primary contributor towards the reduction in the volumes of outstanding work.

**Suppliers' Delivery Times Index**

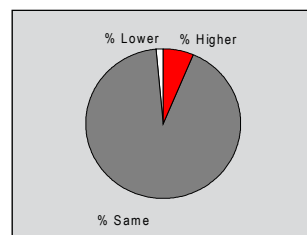
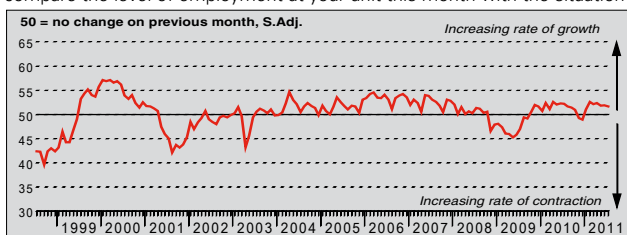
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



There was a minor improvement in vendor performance for the third consecutive month during July, as suppliers' delivery times shortened. While the reduction in suppliers' delivery times was the weakest in three months, the improvement represented a considerable change from the period of deterioration in vendor performance recorded between October 2009 and April 2011.

### Employment Index

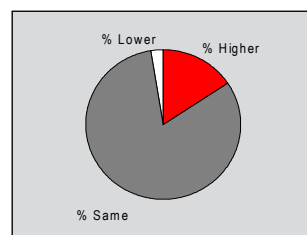
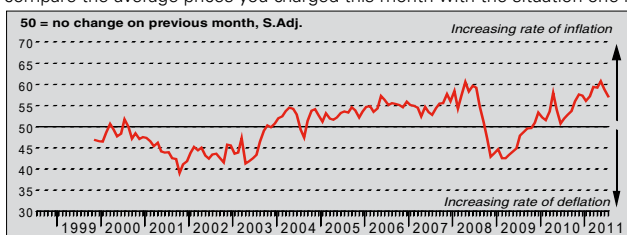
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Private sector companies in Hong Kong increased employment for a seventh consecutive month in July. The growth rate of staff levels remained moderate, and was little-changed from the increases registered in May and June. Anecdotal evidence suggested that the rise in the headcounts of private sector companies was due to a greater volume of work and a previous lack of labour.

### Prices Charged Index

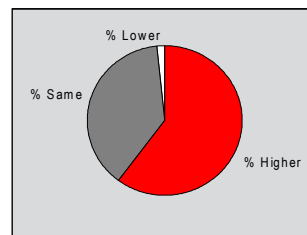
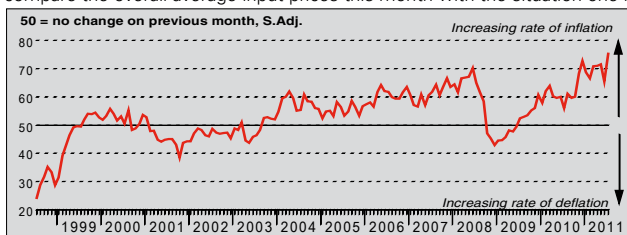
Q. Please compare the average prices you charged this month with the situation one month ago.



Businesses in Hong Kong increased the prices they charged for the twenty-first consecutive month in July. While the rate of inflation was weaker in comparison with the previous four months, it remained strong and well above the series average. Panel members again reported that the rise in prices charged was a consequence of higher overall input costs compared with the previous month.

### Overall Input Costs Index

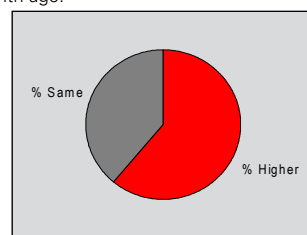
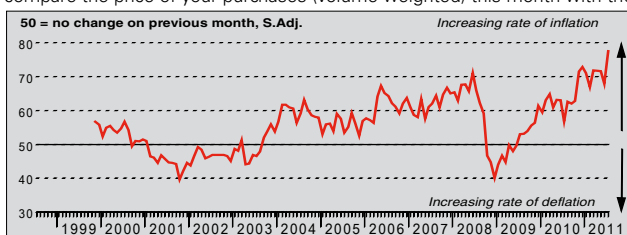
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall cost inflation rose sharply in July, following a slowdown during June. The seasonally adjusted Overall Input Costs Index reached its highest level in the 13-year series history, and indicated a considerable rise in overall input costs. Over 60% of respondents reported higher input costs, against just 2% that posted a fall.

### Input Costs: Purchase Prices Index

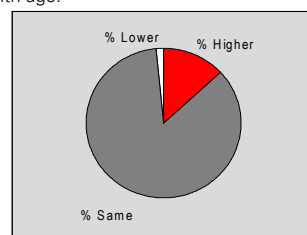
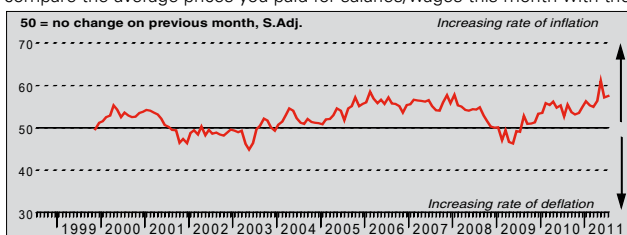
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Purchase Prices Index registered well above the 50.0 no-change mark in July, signalling a sharp increase in the average price of purchases. The rate of inflation quickened considerably to the fastest in the series history, and extended the current period of price increases to 25 months. According to anecdotal evidence, higher prices for a range of raw materials and currency depreciation had underpinned the latest rise in purchase prices.

### Input Costs: Staff Costs Index

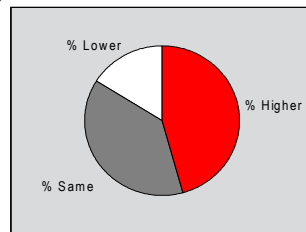
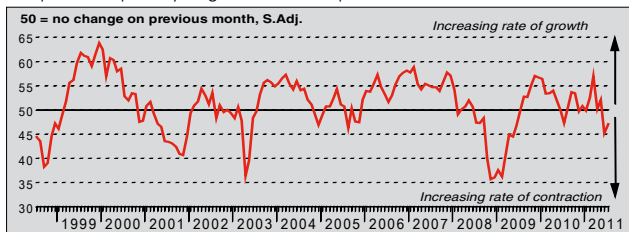
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Wages paid by private firms in Hong Kong were reported to have increased again during July, as the impact of the newly introduced minimum wage legislation hit business costs across the private sector economy. The increase in staff costs was substantial, and accelerated slightly. Salary inflation in Hong Kong has been maintained for two years.

**Quantity of Purchases Index**

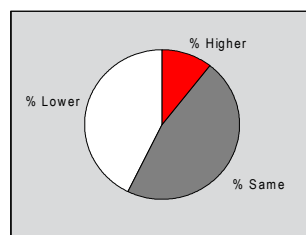
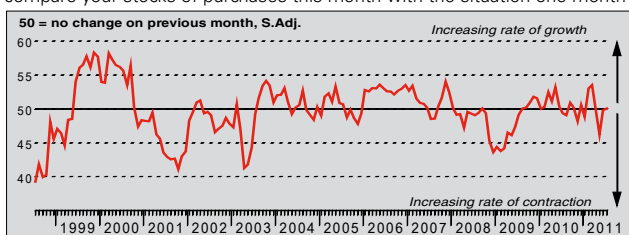
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



The purchasing activity of companies in Hong Kong decreased in July for the second month in a row. Although the reduction in month-on-month input buying was solid, the rate of contraction eased from June. According to panel members, the primary driver of lower purchasing activity was fragile new order growth, following the decline reported in June.

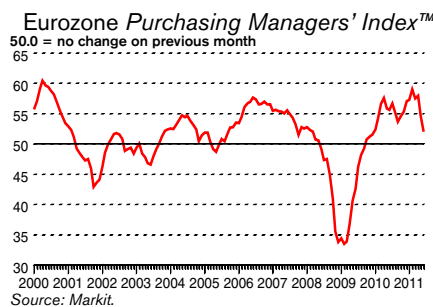
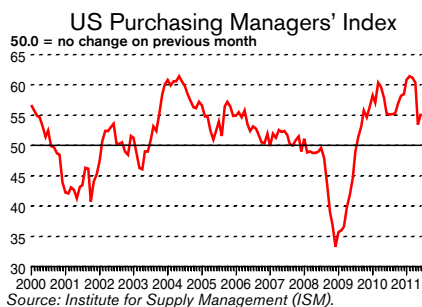
**Stocks of Purchases Index**

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



Stocks of purchases held by private companies in Hong Kong increased only marginally during July. This marked a change from the previous three months, in which lower stocks of purchases were recorded. The seasonally adjusted Stocks of Purchases Index was broadly in line with the long-run series average.

**International PMI**



Business conditions for companies within the US manufacturing sector improved markedly in June, signalled by the seasonally adjusted ISM US PMI posting 55.3, up from 53.5 in May. Underpinning the rise in the headline index was an acceleration in growth rates of output, new orders and employment in June.

The Markit Eurozone Manufacturing PMI<sup>®</sup> fell to a one-and-a-half year low of 52.0 in June, down from 54.6 in May. At 54.9, the average PMI reading during Q2 2011 is the lowest since the opening quarter of 2010 and well below the average of 57.9 seen in Q1. The PMI has signalled expansion in each of the past 21 months.

The seasonally adjusted HSBC Purchasing Managers' Index<sup>™</sup> fell to an eleven-month low of 50.1 in June, from 51.6 in May, signalling only a fractional improvement in manufacturing sector operating conditions. The index averaged its lowest quarterly reading since Q2 2009 in the second quarter.

**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*<sup>™</sup> (PMI<sup>®</sup>) 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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