## HSBC *Purchase Managers' Index*™ Press Release

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compiled by markit

# HSBC Hong Kong PMI®

## PMI signals overall deterioration in Hong Kong's business climate

Operating conditions in Hong Kong's private sector economy deteriorated for the first time in over two years in August, as demand contracted markedly in the midst of a worsening economic environment. Output fell at a moderate pace, while new orders returned to contraction after a minor rise during June. Growth of new orders from the Chinese mainland was subdued, while employment fell for the first time since December 2010 and purchasing activity continued to contract. Furthermore, price pressures remained strong.

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 47.8 in August, down notably from 51.4 in July. The latest figure signalled the worst deterioration in overall operating conditions for companies in Hong Kong in 26 months.

The fall in the headline index was led by a decrease in the output of private sector firms in the Hong Kong economy during August. This marked the first decline in output for 26 months, and was the quickest rate of contraction since May 2009 as demanded weakened considerably.

The softening in demand was illustrated by the reduced volume of new orders at Hong Kong's private sector firms during August. While the contraction in new business was moderate, it was the quickest rate of decline since June 2009. Consequently, the contraction in backlogs of work quickened to the fastest pace since June 2009.

However, Chinese demand for Hong Kong's goods and services remained positive as new orders from the Mainland grew for the eleventh consecutive month. Nevertheless, the rate of growth eased month-on-month, and fell below the average level for the current sequence of expansion.

Lower new orders and output discouraged hiring in Hong Kong's private sector, as employment fell moderately during August. The reduction in staff numbers was the first since December 2010, and followed several months of slow growth. Many panellists noted staff resignations.

Expectations weakened on the back of the fall in demand, as purchasing activity by businesses fell during August. The reduction in month-on-month input buying was solid, and the rate of contraction quickened from July.

Overall input costs faced by Hong Kong's businesses rose solidly during August, extending the current period of inflation to 26 months. The rate of inventory inflation slowed, however, as growth in both purchasing prices and staff costs eased. This, in turn, led to a fall in the seasonally adjusted Prices Charged Index to its lowest level in 11 months.

### Comment

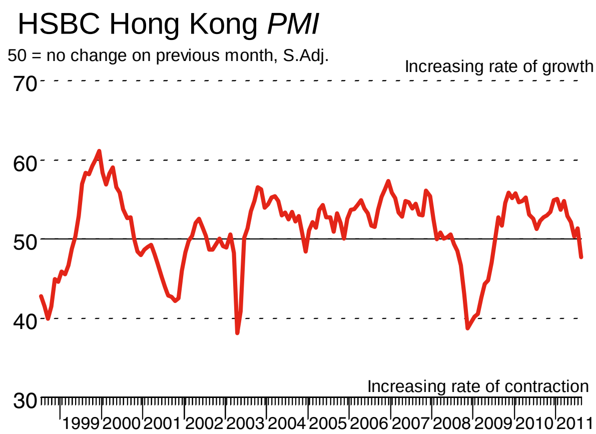
Commenting on the Hong Kong *PMI®* survey, Mark McCombe, Chief Executive of HSBC in Hong Kong, said:

*"Mainland demand for Hong Kong goods and services is still holding firm, but weakening Western demand is adversely weighing on business conditions and hiring activities. With inflationary pressures still stubbornly high and private business sentiment starting to cool in Hong Kong, private consumption could potentially follow suit soon."*

### Key points

- Operating conditions deteriorate for the first time in over two years
- Output contracts at quickest rate since May 2009
- Input price inflation eases sharply

### 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 mailto:economics@markit.com.

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*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.