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HSBC Hong Kong PMI®

Private sector economy in worst health since May 2009

Key findings:

- Operating conditions deteriorate for second successive month
- Output contracts at quickest rate in just under two-and-a-half years
- Cost pressures remain strong despite weaker market conditions

Hong Kong's private sector economy experienced another month of deteriorating operating conditions during September, as demand contracted further and the consensus outlook became increasingly downbeat. Output fell at a marked pace, while the contraction in new orders accelerated to a solid rate. Growth of new orders from the Chinese mainland was fragile, while employment declined moderately for the second month running. Despite weaker demand conditions, overall 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 45.9 in September, down from 47.8 in August. The latest figure signalled the worst deterioration in overall operating conditions for companies in Hong Kong in 28 months.

The fall in the headline index was underpinned by a marked fall in total activity at Hong Kong's private sector firms during September. Furthermore, the rate of contraction accelerated over the latest survey period to the quickest pace in 29 months.

As demand conditions continued to soften over the month, the volume of new orders received by private sector firms in Hong Kong fell. Following the moderate contraction in new business recorded in August, the rate of decline accelerated

in September to the fastest since May 2009.

New order growth from Mainland China was insufficient to overcome declines in domestic and foreign demand for Hong Kong's goods and services. New business from the Mainland grew at the slowest rate for a year.

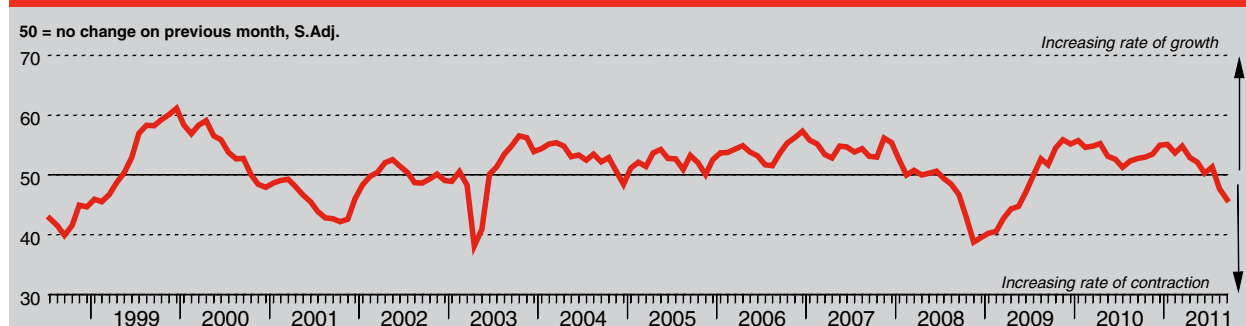
In an effort to compensate for the fall in overall new orders, businesses reduced backlogs of work at a solid pace, one that was quicker than those recorded in any month in the last two-and-a-half years.

With market conditions deteriorating, firms in Hong Kong's private sector economy reduced purchasing activity for the fourth consecutive month, and at a solid rate. As a result, stocks of purchases also contracted, following two months of weak growth.

Amidst weaker demand and subdued expectations, overall employment in Hong Kong's private sector fell moderately. Many panellists also noted staff resignations as a reason for the decline in headcounts.

Hong Kong's businesses continued to face strong cost pressures during September, despite softer global demand. The increase in overall input prices was marked, and extended the current period of inflation to 27 months. The growth in both salary costs and purchasing prices eased over the month but remained above their respective long-run series averages'. Subsequently, output price inflation also eased.

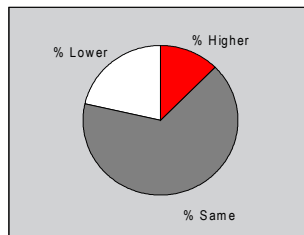
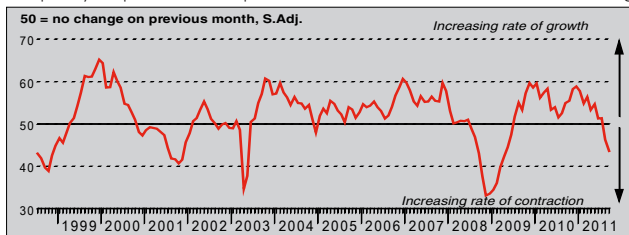
HSBC Hong Kong *Purchasing Managers's Index*™ PMI®



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

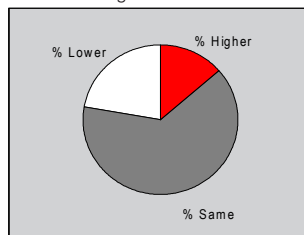
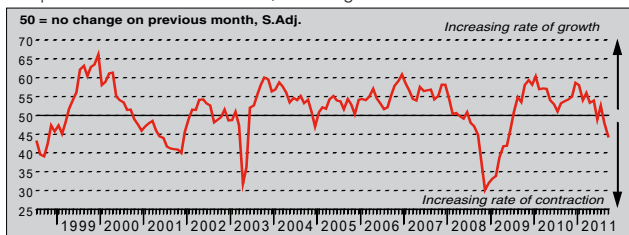
Q. Please compare your production/output this month with the situation one month ago.



Output at private sector companies in Hong Kong decreased markedly during September, after a solid decline in August. The fall in the level of the seasonally adjusted Output Index below the 50.0 no-change mark was only the second in 27 months as activity contracted at the quickest rate since April 2009. Approximately 21% of panellists indicated a fall in output, and anecdotal evidence suggested that the decline in production was due to an unfavourable economic environment.

New Orders Index

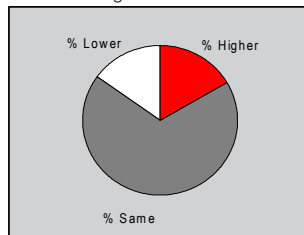
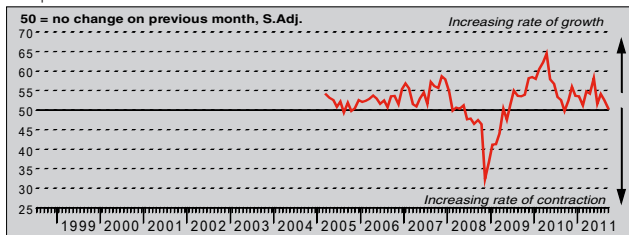
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



The seasonally adjusted New Orders Index remained below the 50.0 no-change mark in September for only the third time since June 2009. The rate of contraction in new business signalled was solid, and quickened from August to the fastest pace recorded in 28 months. According to survey members, weaker demand was the primary reason for lower levels of new orders.

New Orders Index: Mainland China

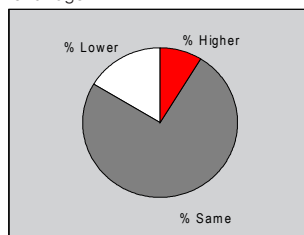
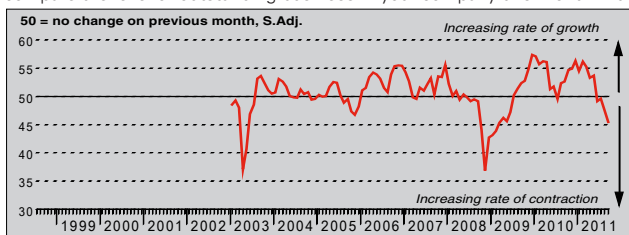
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders received by Hong Kong's private sector from Mainland China increased during September, marking a year of consecutive month-on-month growth. However, the rate of expansion in new orders from the Mainland was only marginal, and eased to the slowest pace registered in the current sequence of expansion. Around 17% of respondents reported higher orders, while approximately 15% recorded a fall.

Backlogs of Work Index

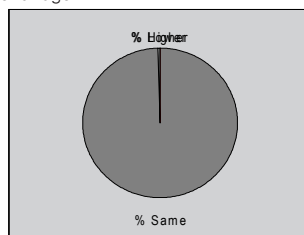
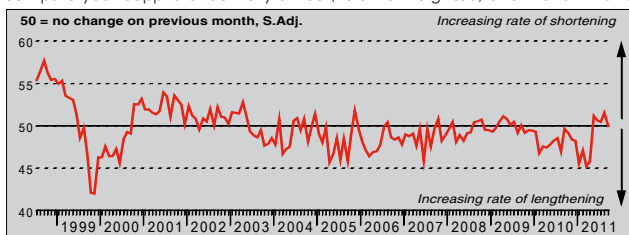
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at private sector companies in Hong Kong decreased for the fourth month in succession during September. The rate of contraction also quickened for the second consecutive survey period to the quickest pace in two-and-a-half-years. While the majority of respondents continued to report the same level of backlogs as the previous month, over 16% recorded lower levels of outstanding work. According to the latest anecdotal evidence, a solid decline in new orders was the primary contributor towards the reduction in the volume of backlogs.

Suppliers' Delivery Times Index

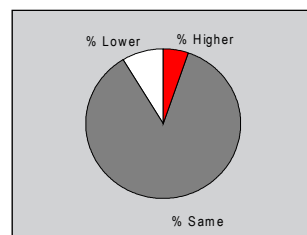
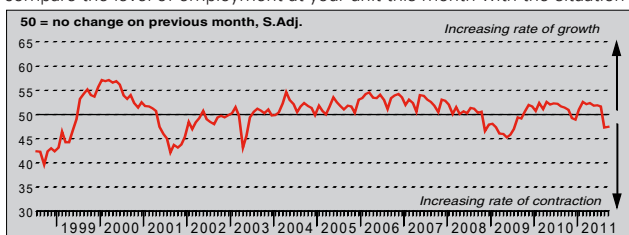
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



After accounting for seasonal variations, suppliers' delivery times to firms in Hong Kong's private sector remained unchanged during September. The stagnation in the improvement of vendor performance followed four months of consecutive gains, but the headline index remained above its long-run series average. Virtually all panellists recorded no-change to the length of suppliers' delivery times.

Employment Index

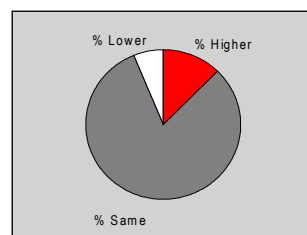
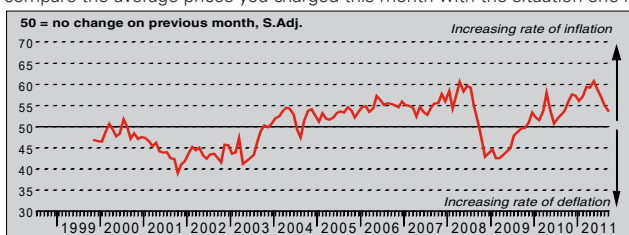
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Private sector companies in Hong Kong continued to reduce employment during September. This marked only the second month since December 2010 that headcounts at business units have fallen. The decline in the number of staff was moderate, however, and eased slightly from August. Anecdotal evidence suggested that the fall in headcounts at private sector companies was due to a combination of staff resignations and falls in activity.

Prices Charged Index

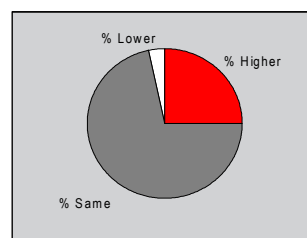
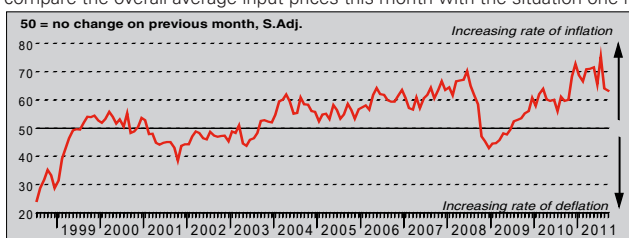
Q. Please compare the average prices you charged this month with the situation one month ago.



Businesses in Hong Kong increased the prices they charged for the twenty-third consecutive month in September. The rate of inflation eased for the fourth consecutive month, however, to a moderate pace that was the slowest in a year. Panel members continued to report that the rise in prices charged was a consequence of higher overall input costs, and also mentioned the negative impact of foreign currency fluctuations.

Overall Input Costs Index

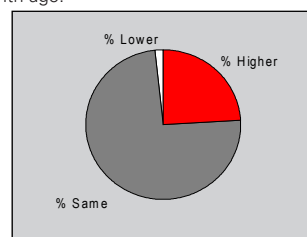
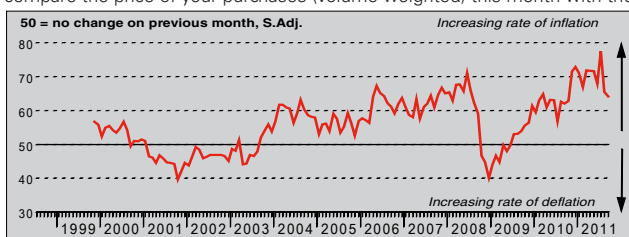
Q. Please compare the overall average input prices this month with the situation one month ago.



Overall cost inflation in Hong Kong's private sector remained high in September. The seasonally adjusted Overall Input Costs Index was well above the 50.0 no-change mark, indicating a strong rise in overall input costs, and continued to be above the average for the current sequence of input price inflation. Exactly one-quarter of respondents reported higher input costs, while just 3% of panellists recorded lower input costs.

Input Costs: Purchase Prices Index

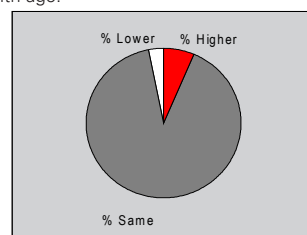
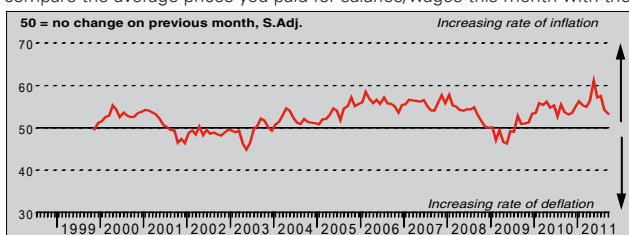
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Purchase Prices Index registered well above the 50.0 no-change mark in September, signalling a sharp increase in the average price of purchases. While the month-on-month rate of inflation slowed from August, it remained considerably above the long-run series average. According to anecdotal evidence, higher prices for a range of raw materials and foreign currency appreciation had underpinned the latest rise in inventory inflation. Purchasing prices have now been increasing for 27 consecutive months.

Input Costs: Staff Costs Index

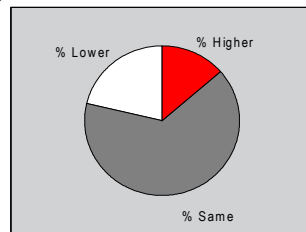
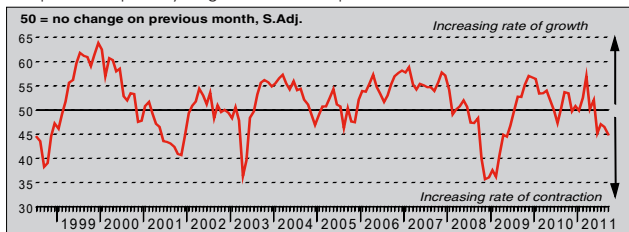
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Wages paid by private firms in Hong Kong were reported to have increased again during September, as the impact of salary adjustments continued to hit business costs across the private sector economy. However, the rate of increase in staff costs slowed for the second successive month to a moderate pace. Salary inflation in the private sector of Hong Kong's economy has been maintained for 26 months.

Quantity of Purchases Index

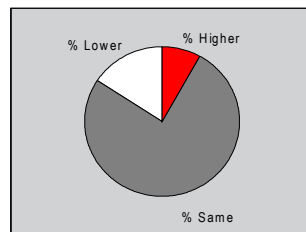
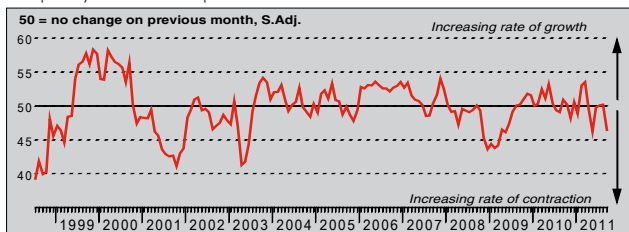
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



Purchasing activity by companies in Hong Kong's private sector economy decreased in September for the fourth month in a row. The reduction in month-on-month input buying was solid, and the rate of contraction quickened for the second month running. According to panel members, the primary drivers of lower purchasing activity were smaller volumes of orders received and caution over the economic outlook.

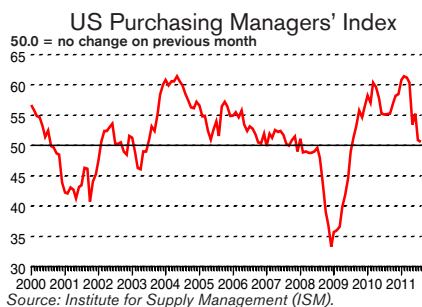
Stocks of Purchases Index

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 contracted during September, following two months of weak growth. The rate of depletion was solid, and the quickest since May. Almost 16% of respondents indicated a fall in input inventories, around double the proportion that reported a rise. The seasonally adjusted Stocks of Purchases Index was well below the long-run series average.

International PMI



Business conditions in the US manufacturing sector improved only marginally in August. At 50.6, down from 50.9 in July, growth signalled by the headline PMI was the smallest in the current sequence of expansion. Despite contractions in output and new orders, employment increased at a modest rate.

The final Markit Eurozone Manufacturing PMI[®] fell from 50.4 in July to 49.0 in August, below the earlier flash estimate of 49.7. At lower than the 50.0 no-change mark, the PMI reading signalled the most severe worsening in operating conditions across the Eurozone since August 2009.

The HSBC Purchasing Managers' Index[™] signalled a deterioration in Chinese manufacturing sector operating conditions for the second month in succession. However, by rising from 49.3 to 49.9 in August, the index was at a level indicative of a negligible rate of deterioration.

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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