

## HSBC Hong Kong PMI®

### Private sector economy in worst health since May 2009

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.

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.

### Comment

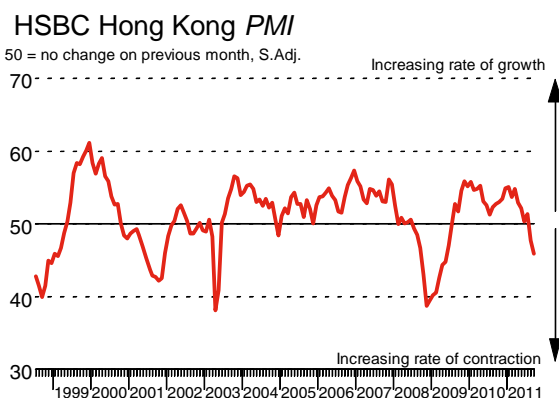
Commenting on the Hong Kong PMI® survey, Donna Kwok, HSBC Greater China Economist, said:

*"Mainland demand continues to support Hong Kong economic activity despite the uncertainty in Western markets. While inflationary pressures are still rising, slower growth should eventually help to ease price gains."*

### Key points

- 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

### 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*<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, 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](mailto:mailto:economics@markit.com).

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