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HSBC Hong Kong PMI®

Private sector operating conditions deteriorate only marginally in October

The health of Hong Kong's private sector economy deteriorated again during October, albeit at a slower rate than in September. Operating conditions continued to worsen amid suppressed confidence, as new orders fell further. A strengthening in demand from Mainland China and a reduction in backlogs were not sufficient, however, to prevent another contraction in overall activity. As a result, private sector employment continued to decline. Cost pressures did ease over the month, but not by enough to prevent a rise in output price inflation.

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 49.0 in October, up from 45.9 in September. The latest figure signalled that the deterioration in the overall operating conditions for Hong Kong's businesses was marginal, slowing notably from September (which marked the worst monthly fall in over two years). The sub-50 headline index for October was underpinned by modest contractions in business activity, new orders and employment.

Private sector companies operating in Hong Kong continued to reduce their backlogs of work during October, as domestic and foreign demand remained subdued. While the marginal rate of reduction in outstanding business was insufficient to generate activity growth, it did, however, contribute to the slower pace of contraction in output.

The deceleration in the pace of output contraction was also aided by a slowing in the rate at which total new orders fell over the month.

In contrast, Mainland China's demand for Hong Kong's goods and services remained reasonably buoyant, as new export orders from the Mainland rose at a moderate pace.

Purchases of inputs fell at the fastest rate in over two-and-a-half years in October. As a result, stocks of pre-production inventories fell for their second successive month.

In line with the overall worsening in operating conditions, private sector employment in the Hong Kong economy fell marginally in October. A number of panellists reported voluntary staff resignations.

Hong Kong's businesses increased their output prices during the month, as they continued to record rising cost pressures. While softer demand conditions helped to lower the rate of input price inflation, it remained sharp.

Suppliers' delivery times lengthened for the first time in six months during October. However, the deterioration in vendor performance was only marginal.

Comment

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

"The pace of contraction in Hong Kong's private business activity eased for the first time in three months, suggesting that the city's slow down could be starting to stabilize. Activity is still cooling in response to weakening Western demand, but with China's manufacturing sectors back in expansion mode, Mainland demand should start to provide a thicker buffer against global economic uncertainty going forwards."

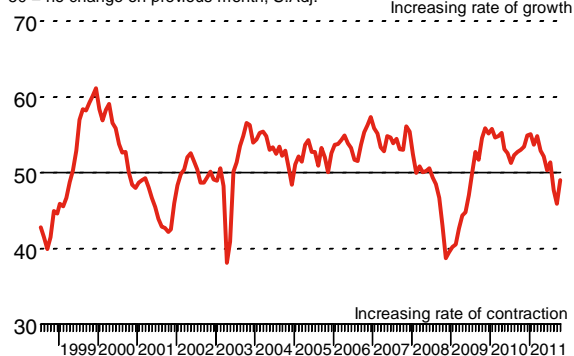
Key points

- At 49.0, PMI close to neutral 50.0 level
- Output contraction eases as decline in new orders decelerates from September
- Charge inflation rises as cost pressures remain strong

Historical Overview

HSBC Hong Kong PMI

50 = no change on previous month, S.Adj.



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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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