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

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compiled by markit

# HSBC Hong Kong PMI®

## Health of private sector deteriorates only marginally in December

Private sector businesses in Hong Kong recorded only a marginal deterioration in operating conditions during December. The rate at which the health of the private sector economy declined eased from November. However, as demand for Hong Kong's goods and services remained weak, outstanding business was depleted at a solid rate. While this helped support activity, output still fell for the fifth consecutive month. Firms also reduced employment and inventory stocks over the month, due to the subdued market conditions.

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 49.7 in December, up from 48.7 in November. This represented the weakest deterioration in the operating conditions faced by Hong Kong's private businesses since the current sequence of sub-50.0 *PMI* readings began in August.

In an attempt to limit the impact of slow new order growth on output, businesses in Hong Kong depleted outstanding business at a solid rate during December. While the pace of decline in backlogs of work decelerated, it remained solid.

The rate at which output was reduced slowed from November, to only a marginal pace. Nevertheless, the decline in activity extended the current period of contraction to five months.

New orders received by businesses in Hong Kong increased during December for the first time since July. However, the rate of growth was only marginal. New business from Mainland China declined solidly over the month, albeit at a slower pace than in November.

With new order volumes signalling only weak demand, firms in Hong Kong reduced employment at a marginal rate over the month. The net fall in headcounts in the private sector economy was the fifth in as many months. Survey participants suggested that a lack of labour was behind a moderate lengthening in lead times during December.

Lower production requirements encouraged firms to continue their destocking efforts in December. Pre-production inventories contracted at a strong pace - the quickest recorded for 33 months.

Hong Kong's private sector firms increased their selling prices at a solid rate during December, having reduced them for the first time in over two years in November. Reports showed that the main reason for raising charges was sharper input price inflation.

Costs increased at a strong overall rate during the latest survey period. Data suggested that inflation of purchase prices and staff costs accelerated, and were broadly in line with their long-run averages.

### Comment

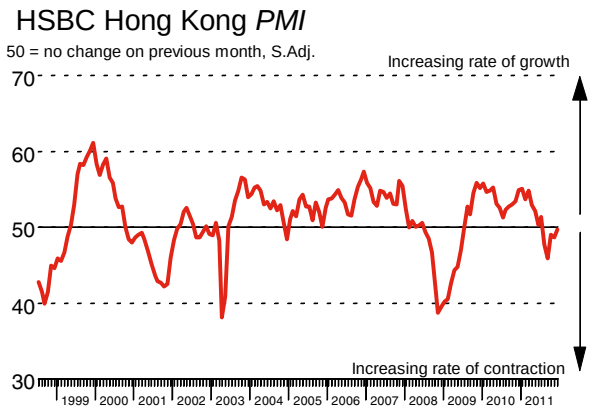
Commenting on the Hong Kong *PMI*™ survey, Donna Kwok, Economist, Greater China Economic Research, HSBC, said:

*"Although Hong Kong's economy has come off the boil, it's still simmering. Overall demand strengthened in December, helping to offset continued softness in Mainland activity, with the headline PMI™ rising to a level just below 50. Headwinds from both the trade and financial channels may slow growth next year, but provided Beijing's stimulus measures feed through, the city should strike a healthier balance between inflation and growth."*

### Key points

- PMI rises to five-month high but remains below the 50.0 no-change mark
- New order growth recorded for first time since July, albeit only marginal
- Input price inflation quickens to a strong pace

### Historical Overview




*Source: Markit, HSBC*

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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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