

HSBC Hong Kong PMI®

Private sector business conditions improve in January

Summary

January data saw a return to growth for Hong Kong's private sector, with firms reporting increases in both output and new orders. Notably, the rise in incoming new work was solid and the fastest since last May. Panellists largely linked the expansion in new business to greater client demand. Concurrently, private sector companies hired additional staff, ending a five-month period of job losses, while the rate of input cost inflation strengthened to a three-month high in January.

After adjusting for seasonal variation, 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 – posted 51.9 in January, up from 49.7 in December. Above the 50.0 no-change mark, the PMI indicated a modest improvement in Hong Kong's private sector business conditions, in contrast to the deterioration reported in each of the past five consecutive months.

Firms operating in Hong Kong's private sector partly attributed the improvement in business conditions to a further rise in new orders. Incoming new work rose at the fastest pace in eight months during January, with panellists generally commenting on greater client demand. That said, new business from Mainland China fell for the third month running. The latest decline was only marginal and the weakest in this sequence.

Reflective of the rise in total new business, Hong Kong private sector output increased in January. Activity rose modestly, ending a five-month period of decline. Despite the increase in output, backlogs were accumulated for the first time since last May, albeit only marginally.

The amount of inputs purchased by Hong Kong private sector companies fell further during the latest survey period. That said, buying activity decreased only slightly, and at the weakest pace in eight months. Meanwhile, stocks of purchases were broadly unchanged from December, with approximately 90% of panellists reporting no-change in inventories.

Suppliers' delivery times lengthened for the fourth consecutive month in January. Anecdotal evidence suggested that vendors struggled to source some raw materials during the latest survey period. Overall, the latest increase in lead times was modest and the weakest since last October.

Employment in Hong Kong's private sector increased modestly in January. Where job creation was reported,

firms largely commented on greater production requirements.

Monitored companies recorded a further rise in input prices in January, with both the cost of purchases and labour rising since December. Overall, the rate of input price inflation was above the long-run series average, and the fastest in three months. Firms passed on parts of their greater cost burdens to clients by raising selling prices. However, the latest rise in output charges was only moderate.

Comment

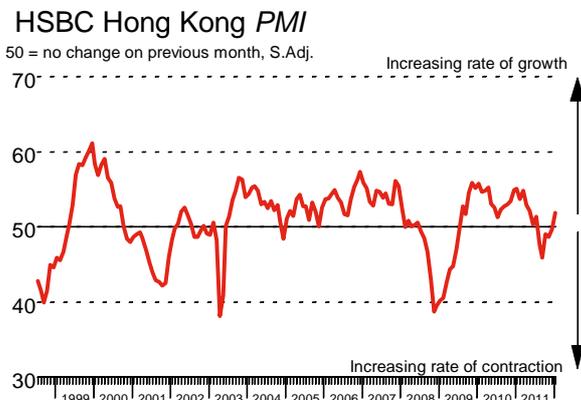
Commenting on the Hong Kong PMI® survey, Donna Kwok, Economist, Greater China Economic Research, HSBC, said:

“Overall demand strengthened again in January to tip the headline PMI back above 50. The sustained strength of Hong Kong's job market is clearly helping to underpin local consumption and offset the impact of still tepid Mainland demand. Slowing global trade flows will weigh upon growth this year, but this promising start to 2012 underscores our expectations for GDP to stay in expansion mode this year.”

Key points

- PMI registers above 50.0 no-change mark for first time since last July
- Output and new order growth both at eight-month highs
- Modest rate of job creation, in contrast to previous five months of job losses

Historical Overview



Sources: 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 economics@markit.com.

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