HSBC Purchasing Managers' Index™ Press Release

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HSBC Hong Kong PMI®

Output and new orders both increase further in March, but at weaker rates

Summary

March data signalled a moderate improvement in private sector business conditions in Hong Kong. Output and new orders both increased over the month, with firms generally citing greater client demand. That said, the rates of growth eased since February, with the expansion in new business the weakest in 2012 so far. Concurrently, firms hired additional staff in March, while the rate of input price inflation strengthened to a fivementh high.

After adjusting for seasonal variation, the HSBC Hong Kong Purchasing Managers' Index $^{\text{\tiny TM}}$ (PMI $^{\text{\tiny S}}$) – a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy – posted above the 50.0 no-change mark for the third successive month in March. At 52.0, down from 52.8 in February, the PMI signalled a moderate improvement in operating conditions.

Firms linked the latest improvement in business conditions to greater client demand. Approximately one-fifth of panellists received a larger volume of new orders in March, with growth solid and stronger than the long-run series average. Moreover, new work intakes from Mainland China also increased for the second month running in March, albeit marginally.

Reflective of larger new order requirements, output at Hong Kong private sector firms increased during the latest survey period. Higher activity has been registered in each month of 2012 so far, but the latest rise was weaker than that reported in February. The increase in output only fulfilled part of the overall rise in new business. Subsequently, backlogs of work were accumulated by monitored companies in March.

The amount of inputs bought by firms working in Hong Kong's private sector increased solidly in March. Stocks of purchases also rose during the latest survey period. Anecdotal evidence generally linked greater purchases to larger new order requirements. Meanwhile, suppliers' delivery times lengthened during March, after shortening in February. Panellists suggested that vendors were generally working with smaller workforces.

In contrast to job losses reported in February, monitored companies hired additional staff in March. Employment rose modestly over the month, with the rate of job creation also above the long-run series average.

Hong Kong private sector firms reported a further rise in input costs during the latest survey period. The rate of input price inflation quickened since February to a five-month high. Companies generally passed greater cost

burdens on to clients by raising their selling prices. However, output charges rose only modestly, and at the weakest rate in the current four-month period of inflation.

Comment

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

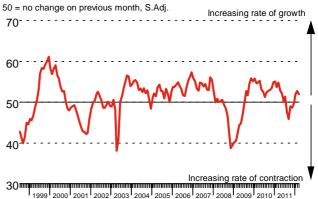
"Hong Kong's PMI expanded for a full quarter for the first time since mid-2011. New business inflows from China held steady, but it was mainly demand from elsewhere that kept private businesses churning healthily through March. New product launches also contributed to the solid pace of output growth, allowing headcount and wages to increase. With the order pipeline still looking healthy, the latest indicators suggest that the economy should bottom out soon and strengthen from Q2 onwards."

Key points

- Solid expansions in both output and new orders during March
- Higher staffing levels, reversing job losses in February
- Rate of input price inflation quickens to five-month high

Historical Overview

HSBC Hong Kong PMI



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' IndexTM (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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